

**VULNERABILITIES TO WASTE, FRAUD, AND ABUSE:
VIEWS OF THE DEPARTMENTS OF DEFENSE,
STATE, AND VETERANS AFFAIRS**

HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY,
VETERANS AFFAIRS, AND INTERNATIONAL
RELATIONS

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

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VULNERABILITIES TO WASTE, FRAUD, AND ABUSE: VIEWS OF THE DEPARTMENTS OF DEFENSE, STATE, AND VETERANS AFFAIRS

TUESDAY, MARCH 2, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS
AFFAIRS, AND INTERNATIONAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Mica and Tierney.

Staff present: Lawrence J. Halloran, staff director and counsel; J. Vincent Chase, chief investigator; Samantha Sherman, professional staff member; Jonathan Wharton, clerk; Earley Green, minority staff assistant; and David Rapallo, minority counsel.

Mr. SHAYS. I would like to call this hearing to order.

Last week the General Accounting Office [GAO], and the Inspector Generals identified high risk programs and significant management challenges at the Departments of Defense, Veterans Affairs and State. They cited longstanding financial management and procurement weaknesses at DOD, inefficient health care infrastructure and slow benefits processing at the VA, and the need for enhanced security and information systems at the Department of State.

Today, we invite those three important departments to address the same subjects. We do so for two reasons. First, these hearings give the subcommittee an opportunity to survey key issues with our oversight partners, and refine our agenda for this Congress. Second, this broader perspective helps us discern common problems that might yield governmentwide solutions.

While each department faces unique challenges, all three have at their disposal the same powerful set of tools that can, if energetically applied, help fix broken systems, improve program performance and increase accountability. The Government Performance and Results Act, which requires clear performance goals and measurable results, offers troubled agencies and high risk programs an incremental but inevitable path out of bureaucratic thickets and inefficiencies once thought intractable.

As the Results Act process matures, performance measures will have a greater impact on administration budgets, on authorizations and on appropriations, and on Congress as well. So we ask the de-

partments to describe their Results Act compliance efforts and to identify the key indicators by which they, and we, will measure their performance in the years ahead.

We welcome all our witnesses today, and it is my understanding that we will have two statements from the Department of Defense, and given the size of the budget that seems reasonable, and then one testimony from the Veterans Affairs and one from State. But, all of our witnesses at the table will be invited to respond to questions, and let me just introduce our witnesses.

From the Department of Defense, Nelson Toye, Deputy Chief Financial Officer, and then we have Stanley Soloway, Deputy Under Secretary of Defense for Acquisition Reform, speaking about acquisition.

And then from the Department of Veterans Affairs we have Edward A. Powell, Jr., Assistant Secretary for Financial Management, accompanied by Mark Catlett, Deputy Assistant Secretary for Budget, and Frank Sullivan, Deputy Assistant Secretary for Finance.

Department of State, we have Mr. Bert Edwards, Chief Financial Officer, U.S. Department of State, accompanied by Patrick Kennedy, Assistant Secretary of State for Administration.

Our practice is that we swear everybody in beforehand, and if you would stand and raise your right hands, please.

[Witnesses sworn.]

Mr. SHAYS. For the record, all our witnesses responded in the affirmative.

Now, is anyone missing from that list? OK. We are going to start with you, Mr. Toye, and we will go from there. And if you would bring your microphones somewhat closer.

STATEMENTS OF NELSON TOYE, DEPUTY CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE; STANLEY SOLOWAY, DEPUTY UNDER SECRETARY OF DEFENSE FOR ACQUISITION REFORM; EDWARD A. POWELL, JR., ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT, DEPARTMENT OF VETERANS AFFAIRS, ACCOMPANIED BY MARK CATLETT, DEPUTY ASSISTANT SECRETARY FOR BUDGET, AND FRANK SULLIVAN, DEPUTY ASSISTANT SECRETARY FOR FINANCE; AND BERT EDWARDS, CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF STATE, ACCOMPANIED BY PATRICK KENNEDY, ASSISTANT SECRETARY OF STATE FOR ADMINISTRATION

Mr. TOYE. Thank you, Mr. Chairman. With your permission, I ask that my formal written statement be included in the record, and at this time I would like to provide a summary of the statement.

I want to thank you for the opportunity to be here today to discuss ongoing financial management reform within the Department of Defense. I welcome the opportunity to address what we have done and what we are doing to improve financial management within the Department.

I want to begin by stating that financial management reform within the Department continues to be a high priority. The Department's ongoing financial management reform initiatives represent the most comprehensive reform of financial management in the De-

partment's history. Our objective is to put into place policies, systems and practices that will enable us to produce accurate financial information in a timely manner.

While we are proud of the significant progress that the Department has achieved to date, we are very well aware that much more remains to be accomplished. Today I want to briefly address the challenges we face, the progress we have made, and our short-term and long-term strategies for lasting reform.

First, our challenges. The size and complexity of the Department alone makes financial management reform a big challenge. Compare us, for example, with General Motors, the No. 1 Fortune 500 company for 1998. GM had approximately \$178 billion in annual revenues and \$228 billion in assets. In contrast, the annual budget for the Department of Defense is over \$260 billion and we have over \$1 trillion in assets.

Beyond size, our complexity is equally challenging. We maintain over 500 bases in 150 countries and territories throughout the world. Additionally, the Department of Defense has hundreds of appropriations and accounts managed by 4 military services, 14 defense agencies and numerous other subordinate organizations.

Additionally, the standards that the Department now is asked to comply with are still evolving. As the Department strives to comply with standards that only recently have been established, still more changes are occurring. In fiscal year 1998 alone, four new auditable financial statements were required for DOD's reporting entities. New reporting requirements also continue to be imposed. This is a significant challenge for the Department of Defense because it is akin to hitting a moving target. Despite these challenges, we have made significant progress.

First, the Department has consolidated over 330 financial management field sites scattered throughout the world into 5 centers and 18 operating locations. This was completed in July 1998, almost 2 years ahead of the Department's original schedule.

Second, to remedy the problem of numerous and incompatible financial management systems, we have embarked on a major streamlining effort. As of October 1998, we had reduced the number of finance and accounting systems by 66 percent. However, we are not simply reducing the number of finance and accounting systems. Our objective is to replace old, outdated, noncompliant systems with more modern systems that can meet today's standards.

In addition to consolidating operations and reducing systems, the Department has over 150 other initiatives underway to improve and streamline financial management and to improve the timeliness and accuracy of its accounting data. Despite these accomplishments, the Department still faces significant obstacles in transforming its financial operations, but we are getting the job done one step at a time.

The Pentagon of today is not the Pentagon that our fathers knew. In this new Pentagon it is no longer adequate to keep just a checkbook balance of the Department's funds. Increasingly, the Department of Defense is being judged by new standards, as generally accepted accounting practices prevalent in the private sector are being applied to the Federal Government.

So how is the Department going to improve financial management? We are moving toward our goal with both a long-term and a short-term strategy.

The Department's systems were not designed to meet current commercial-type standards and therefore are not capable of complying with recently enacted standards. To overcome this problem, the Department is taking a two-track approach. The first track is to improve or replace the Department's current systems with systems that will meet current standards. But the Department does not expect to have financial systems that can produce fully auditable financial statements prior to the year 2003. Because of the desire and indeed the necessity to achieve progress before that date, the Department has undertaken a second track that is an interim effort, and includes the use of contractors to address many of the Department's more significant problems. As a result, the Department expects to make progress each year toward resolving its financial management challenges. Financial management within the Department is a work in progress. There have been notable successes, but it is impossible to reverse decades-old problems and inefficiencies overnight and implement necessary reforms without several years of initiatives.

In summary, the Department of Defense faces significant financial management challenges in the near term. To be successful in our reform efforts, we need a dedicated effort from the Department's financial community and the cooperation of every community that feeds data to the Department's financial management systems. We are getting both. This is a Departmentwide management initiative involving participation across all functional areas. Success should enable us to generate better financial data for decision-makers and ultimately get more "bang for the buck" out of the defense budget.

Mr. Chairman, this completes my oral testimony, and I will be happy to answer any questions for the record.

[The prepared statement of Mr. Toye follows:]

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STATEMENT OF MR. NELSON TOYE
DEPUTY CHIEF FINANCIAL OFFICER
DEPARTMENT OF DEFENSE
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND
INTERNATIONAL RELATIONS

March 2, 1999

For Official Use Only
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**Statement of Mr. Nelson Toye
Department of Defense
Deputy Chief Financial Officer
House Government Reform Committee
Subcommittee on National Security, Veterans Affairs, and International Relations
March 2, 1999**

Mr. Chairman, members of the Committee, it is a pleasure to be here today to discuss on-going financial management reform within the Department of Defense. I welcome the opportunity to address what the Department has done, and what we are doing, to improve financial management within the Department.

I want to begin by stating that financial management reform within the Department continues to be a very high priority. The Department's ongoing financial management reform initiatives represent the most comprehensive reform of financial management systems and practices in Defense history. Our objective is to put into place policies, systems and practices that will enable us to produce accurate financial information in a timely manner and to do so in such a way that the results will routinely receive favorable audit results. While we are proud that significant progress has been achieved, we are aware that much remains to be accomplished.

The Department's financial management reforms aim to streamline and redesign financial processes and organizations in order to make them optimally effective and to cut costs. Equally important, these reforms seek to ensure that the Department's financial management operations fulfill the requirements of its leaders, satisfy statutory requirements, minimize the potential for fraud, and provide superior customer service.

Today, I want to review some of the financial management reform efforts the Department is making to improve the accuracy and timeliness of its financial information and to obtain clean audit opinions on its financial statements.

FINANCIAL MANAGEMENT REFORM - OVERVIEW

Financial management in the Department of Defense is a work-in-progress designed to fulfill the needs of its leaders, meet statutory requirements, maximize efficiency and minimize fraud. There have been notable successes, but progress is slow in some areas. It is impossible to reverse decades-old problems overnight and some reforms will require several years of transition, reengineering and modernization.

In moving forward, the Department's financial management reform must accommodate two unavoidable constraints. First, the Department cannot stop its financial operations while it fixes outdated business practices and flawed systems. Every day, the Department must manage payrolls, pay contractors, and produce our financial reports. These daily operating requirements impose a strong practical constraint on our plans for changing systems and business practices.

A second constraint is that lasting reform demands consensus and collaboration. Few solutions rest exclusively within the jurisdiction of the financial management community. The development of an infrastructure capable of providing accurate and reliable financial management information and achieving auditable financial statements is a high priority of the Department. An infrastructure built around the integration and transfer of financial information between non-financial "feeder" systems and accounting systems (for example, property and inventory systems that feed information to accounting systems) is a Departmental goal and is necessary to enhance the sharing of information and to avoid redundant and sometimes conflicting data.

The Department's current leadership is committed to making financial management reform a hallmark of its stewardship. Progress to date has been substantial, and the Department is determined to successfully complete this historically significant reform effort.

DEFENSE'S CHALLENGE

One of the most difficult challenges facing the Department's financial community is producing auditable financial statements. Achieving this objective is important not because audited financial statements themselves offer solutions to the Department's financial management challenges, but because the process of achieving such results better ensures the accuracy and reliability of the information yielded by the Department's policies, systems and practices.

The size and complexity of the Department alone makes financial management reform, and getting to a clean opinion, a big challenge. Compare us, for example, with General Motors--the number one Fortune 500 company for 1998. GM has approximately \$178 billion in annual revenues and \$228 billion in assets. In contrast, the annual budget for the Department of Defense is over \$260 billion, and we have over a trillion dollars in assets.

Beyond size, our complexity is equally challenging. We maintain over 500 bases in 150 countries and territories throughout the world. Unlike many federal agencies, the Department of Defense has hundreds of appropriations and accounts that are managed by three Military Departments, 14 Defense Agencies, and other subordinate organizations.

Indicative of our size and complexity, we process an annual average of nearly 120 million payments to Defense personnel, 14 million commercial invoices, 7 million travel vouchers, 1.5 million transportation bills of lading, and issue 6 million savings bonds. Our monthly disbursements alone average approximately \$24 billion.

Beyond size and complexity, an especially difficult problem in the Department of Defense is the inadequacy of our accounting systems. Our systems are too numerous and incompatible and they were not designed to incorporate generally accepted accounting practices. Our systems were designed primarily to account for how we spend the funds appropriated by the Congress. Similarly, our non-financial systems were designed to meet the needs of various other communities rather than provide information to the Department's accounting systems. This is a significant problem since the majority of the data needed to prepare the Department's financial

statements originates in non-financial feeder systems, such as acquisition systems, logistics systems, personnel systems, medical systems, etc.

As the Department struggles with new standards that have been implemented over the past few years, more changes are being imposed. There has been an unprecedented acceleration to implement newly approved federal-wide accounting standards and requirements. In FY 1998 alone, each applicable Department of Defense organization (reporting entity) was required to prepare four new auditable financial statements. This is in addition to the three statements required for FY 1997. Still additional new reporting requirements continue to be imposed on all federal agencies, including the Department of Defense. This is somewhat similar to the officials in a football game moving the goal line five yards further away every time your team makes a first down. The team can still score a touchdown, but it will take longer and require more effort.

THE IMPORTANCE OF FINANCIAL MANAGEMENT REFORM

Why is it important that the Department of Defense produce accurate financial information? Accurate financial management information is important for four main reasons:

First, reforming financial business practices is all about getting better and more timely information. Our efforts should generate better management information to support better decision-making. It should enable decision-makers to better answer questions such as: What is the full cost of an organization? How cost effective is a function? What is the cost of one alternative or course of action versus another?

Second, better management information is the foundation for other reforms. When you get new and/or better information, you can use it to make additional or better decisions or it can provide additional insight into operations or other options.

Third, accurate financial information is needed to improve public confidence in the Department as stewards of billions of taxpayer dollars. A failure to comply with federal-wide accounting standards could be misinterpreted by our critics to mean that the Department spends too much. It already is difficult to explain to the American people why the Department cannot do what every publicly traded corporation must do, and that is produce financial information that can withstand the scrutiny of auditors.

Fourth, acceptable financial statements are required by law. Specifically, the Chief Financial Officer Act of 1990 requires audited financial statements from federal agencies. The Government Management Reform Act of 1994 mandates a consolidated financial statement for the Federal Government. And the Federal Financial Management Improvement Act of 1996 requires the use of federal-wide accounting standards.

These challenges cannot be met without significant improvements in the Department's financial management operations. To meet these challenges, the Secretary of Defense has committed the Department to do its utmost to help achieve a clean opinion on both the Department's and the government-wide financial statements as quickly and effectively as possible.

PROGRESS TO DATE

Over the past several years, the Department has made enormous progress in remedying the shortcomings of its financial management operations, and this has greatly helped us move closer toward our objectives. Our pivotal agent for accomplishing needed financial management reforms has been the Defense Finance and Accounting Service.

Let me highlight some of their progress. First, the Defense Finance and Accounting Service has consolidated over 330 financial management field sites scattered throughout the world into five centers and 18 operating locations. Through these consolidations, the Department was able to eliminate redundancy and unnecessary management layers, facilitate standardization, improve the accuracy and timeliness of our operations, enhance service to customers, increase productivity, and provide better financial management support to the Department's decision makers. All this was completed by July 1998, almost two years ahead of the original schedule.

Second, to remedy the problem of numerous and incompatible finance and accounting systems, we have embarked on a major streamlining effort. As of October 1998, 109 finance and accounting systems were operating--down from 324 systems in 1991, a 66 percent reduction. Finance systems have been reduced from 127 to 18, with a goal of dropping to just 9 by 2003. Accounting systems are down from 197 to 91, with a goal of 23 or fewer by 2003. However, the objective of this initiative is not simply to reduce the number of the Department's financial management systems. The consolidation, standardization, and modernization of the Department's financial management systems is meant to enable the Department to eliminate its outdated noncompliant financial management systems and replace them with financial management systems that provide more accurate, timely, and meaningful financial management information to decision makers. These efforts also are producing other benefits such as improved processes and significant cost savings.

For example, retiree and annuitant pay operations have been converted to one standard system--the Defense Retiree and Annuitant Pay System--eliminating eight systems and reducing costs by \$10 million per year. Pay accounts for the Department's civilian employees have been converted to the Defense Civilian Pay System and consolidated at three sites. This initiative enabled the Department to close 348 payroll offices and eliminate 27 civilian pay systems, thus reducing the cost of maintaining civilian pay accounts by over 35 percent.

In addition to consolidating operations and reducing systems, the Department's financial management community has over 150 initiatives underway to improve and streamline financial management and improve the timeliness and accuracy of its accounting data. The Department replaced approximately 70,000 pages of separate, and often conflicting, Defense organizational regulations with a single standard "Department of Defense Financial Management Regulation." This regulation is available on the Internet, and can be ordered on CD-ROM or paper.

Competition within the government and with the private sector also has been utilized to improve financial services and save money. Changes implemented by the Defense Finance and Accounting Service as a result of competition studies have produced annual savings of

\$23 million through the streamlining of administration operations, facilities, logistics, and the consolidation of debt and claims management and vendor payments. Other reforms to the contractor payment and audit process have helped increase the accuracy rate of payments to 99.8 percent, expedited the settlement of overhead rates and the closeout of contracts, and are playing an instrumental role in the initiative to improve the procurement process with a goal of becoming paperless early in the next century.

The Department's use of purchase cards is another one of the Department's major successes in business process reengineering. The card enables end-users within organizations to purchase items or services costing less than \$2,500 without extensive paperwork. This program works much the same as an individual's VISA or MasterCard with vendors reimbursed by the purchase card-issuing bank and the Department making consolidated payments to the purchase card financial institution. The widespread use of this card has streamlined the acquisition and payment processes and reduced the cost to process commercial invoices.

The Department is working toward ensuring that all its systems are Year 2000 (Y2K) compliant well before the deadline. Consolidation of the Department's finance and accounting systems has substantially reduced the cost of fixing the Y2K problem. The Defense Finance and Accounting Service is on track to complete all Y2K-related programming for its finance and accounting systems before January 1, 2000, and the financial management community is working diligently with the other functional communities to ensure incoming data streams are compliant as well.

To strengthen internal controls, the Department implements checks, balances, and approval requirements for transactions that affect resources. Internal controls minimize the Department's susceptibility to mismanagement within its finance and accounting operations. The Department strives to incorporate the appropriate levels of verification without requiring excessive resources or hampering the ability to complete the mission. Operation Mongoose is an example of strengthened internal controls within the Department. This initiative uses the combined efforts of the Defense Finance and Accounting Service, the Defense Manpower Data Center, and the Department of Defense Inspector General's Office, including the Defense Criminal Investigative Service, to develop fraud indicators that can be spotted by discrepancies among systems. This program collects and compares data throughout the Department, detects the presence of anomalies within the Department's systems and examines appropriate records to determine if applicable anomalies are a result of fraud. If fraud is found, the Department vigorously pursues criminal charges against those responsible for the fraud. The objective of Operation Mongoose is to establish a permanent structure to detect and prevent fraud by reducing the opportunity for the concealment of crimes and actively seeking it out, rather than waiting for it to surface by chance, be identified by informants, or be detected by random reviews.

THE DEPARTMENT'S TWO-TRACKED APPROACH

I want to emphasize that the Department still faces significant obstacles in transforming its financial operations, but we are getting the job done--one step at a time. The Pentagon of today is not the Pentagon that our fathers knew. In this new Pentagon, it is no longer adequate to

keep just a check book balance of the Department's funds. Increasingly, the Department of Defense is being judged by new standards as generally accepted accounting practices prevalent in the private sector are being applied to the Federal Government.

However, the Department's systems were not designed to meet current commercial-type standards and, therefore, are not capable of complying with recent standards. To overcome this problem, the Department is taking a two-track approach. The first track is to improve or replace the Department's current systems so that they will meet current standards. But the Department does not expect to have financial systems that can produce fully auditable financial statements prior to the year 2003. Because of the desire to achieve progress before 2003, the Department has undertaken a second track that is an interim effort, and includes the use of contractors, to address many of the Department's more significant problems. As a result, the Department expects to make progress each year in addressing those financial management problems that impact the Defense Department's financial information.

LONG-TERM STRATEGIES

Our long-term strategy recognizes that a lasting effective solution requires a Defense-wide management information overhaul. This is necessary because our systems currently are not up to the task. Over the last few years, the Department has embarked on a journey to fix its inadequate systems. More recently, the Department has been developing an architectural blueprint for Defense financial management reform, and in the fall of 1998, we were pleased to present the first comprehensive Financial Management Improvement Plan for the Department. The plan touches on almost all aspects of accounting and finance within the Department. It includes, for the first time, an accounting and finance concept of operations that describes the manner in which the Department intends to carry out accounting and finance operations in the future, and is a major step in meeting our financial management reform objectives. Our long-term strategy focuses on reengineering or replacing existing systems with systems that are compliant with new federal accounting standards and that will interface well with the Department's other financial and non-financial systems.

Our objective is to transform our accounting systems and the many feeder systems that support them, with FY 2003 as our target date for completing the overhaul of our accounting systems. With the Financial Management Improvement Plan, the Department has established a baseline on how we will manage our future financial management operations to meet the Department's financial management information needs at all levels and produce auditable financial information.

Achieving accurate and acceptable financial management reports will require enormous efforts from all functional communities within the Department--not just the financial management community. Only 20 percent of the data needed for sound financial information originates in systems under the control of the financial management community. The remainder originates in non-financial feeder systems--most notably logistics, acquisition, personnel, and medical systems. Therefore, much of our effort must, and does, involve working with those other communities to upgrade their systems and to improve their interfaces with the

Department's financial management systems. While this cooperative endeavor is well underway, much additional effort will be required to successfully complete the undertaking.

The Financial Management Improvement Plan that was submitted to the Congress last fall was only the first step. The Department intends to expand and refine the plan and continue to update it on an annual basis. The plan was developed to do more than just meet various reporting requirements. The Department fully intends to use the plan to guide the transition and evolution of its financial management improvement initiatives.

SHORT-TERM STRATEGIES

While system changes are the long-term solution, there is much that we can, and must, do between now and FY 2003. Our short-term strategy recognizes that. We must expeditiously develop interim methodologies, or alternative strategies, that will allow the Department to achieve an acceptable level of compliance in its major accounts and to support the achievement of more favorable results on the Department's financial information. To succeed in this effort, senior Department of Defense officials are meeting on a regular basis with senior members from the Office of Management and Budget, the General Accounting Office and the Department of Defense Inspector General's Office and working, on a collaborative basis, to identify major obstacles that must be overcome for the Department to be successful, to develop interim solutions to the Department's systemic problems and to apply accounting and auditing standards in ways that make sense for the unique requirements of the Department of Defense.

Major deficiencies that prevented the Department from receiving a favorable audit opinion on its FY 1997 financial statements have been identified. Alternative methodologies to deal with these deficiencies have been, or are being, developed and coordinated with the Office of Management and Budget, the Department of Defense Inspector General, and the General Accounting Office. To implement these alternatives, plans detailing short-term strategies for solutions to each of the deficiencies have been, or are being, developed along with milestone dates to support accomplishment of the Department's goal. To make sure we stay on track, applicable organizations within the Department have been, or will be, required to update these plans on a regular basis.

For example, one particular short-term strategy involves our accounting for property, plant, and equipment. The General Accounting Office estimates that the value of the property owned by the Department is four times the property and equipment owned by the rest of the Federal Government combined. Stated differently, the Department of Defense has approximately 100 times more property than the average federal agency. As a result of new standards, the Department now is being asked to record the value of general property, plant, and equipment--that is personal property and real property owned by the Department--based on the initial purchase price and subsequent depreciation. The problem is that much of this property was acquired decades ago, some over a century ago, and many of the original documents needed to substantiate the initial acquisition cost of these properties are no longer available. Therefore, we are working with the auditors, and have hired private accounting firms, to develop an acceptable method for establishing a value when adequate documentation does not exist.

We are pursuing an approach that may result in the civil engineering community developing a value for Defense real property using agreed-upon criteria. It is a straightforward alternative--but it is different from what traditionally has been expected, and accepted, by the auditors. And, the universe that will be impacted is enormous compared to the rest of the Federal Government.

We have similar problems with Defense equipment in the possession of contractors whose value can be determined only by using data furnished by the contractors. Previously, that has not been adequate for the auditors who would prefer government-generated data showing the original cost.

Other actions involve how to quantify the Department's long-term future liabilities, such as projected costs of health care for Department of Defense military retirees, environmental cleanup of Defense properties, and the disposal of weapons and hazardous materials. These are liabilities that the Department may not be required to pay until 10, 20, or 40 or more years in the future, and that, until recently, the Department was not required to maintain in its financial systems. Clearly, it will be a difficult task to identify and report the amount of these long-term future liabilities. But, it is the right thing to do and we intend to do it.

CLOSING

The Department of Defense faces significant financial management challenges in the near term. To transform its financial management and reporting processes, the Department must vigorously advance both a short-term and a long-term strategy. For the short-term, we must continue to work with the Office of Management and Budget, and the audit community on how to apply accounting standards in ways that are compatible with the unique requirements of the Department of Defense. For the long-term, we must overhaul both our financial and non-financial systems so that we can produce acceptable financial information in a routine manner.

To be successful in reforming our business practices, we need a dedicated effort from the Department's financial community and the cooperation of every community within the Department that is responsible for feeding data to the Department's financial management systems. We are getting both. This is a department-wide management initiative involving participation across all functional areas.

To a few, such efforts may seem to be a wasteful and distracting quest. But acceptable financial information and reports are a mandatory mission. More importantly, success should enable us to generate better financial data for decision-makers, help prevent waste, fraud, and abuse, and ultimately get more "bang for the buck" out of the defense budget.

Similar to the Department's other reform efforts, financial management reform can be achieved only with sustained efforts. I believe that we have the needed dedication, from the Department's most senior leaders, its military members and civilian employees, in the Department's financial community and in its non-financial functional communities. Ultimately, the dedication of the Department's personnel will be our greatest asset in meeting this challenge.

Mr. SHAYS. Thank you, Mr. Toye.

Let me just mention at this time that we have Mr. Tierney from Massachusetts with us. And I don't know if the gentleman would like to make a comment, but I would like to do some bookkeeping while we have a Member here.

I ask unanimous consent that all members of the subcommittee be permitted to place any opening statements in the record and that the record remain open for 3 days for that purpose. Without objection, so ordered.

[The prepared statement of Hon. Rod R. Blagojevich follows:]

DAN BURTON, INDIANA
CHAIRMAN

ONE HUNDRED SIXTH CONGRESS

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

Congress of the United States
House of Representatives

COMMITTEE ON GOVERNMENT REFORM
2157 RAYBURN HOUSE OFFICE BUILDING
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Opening Statement
Representative Rod Blagojevich, Ranking Member
Subcommittee on National Security,
Veterans Affairs, and International Affairs

March 2, 1999

Good morning, Mr. Chairman.

I would like to welcome our distinguished witnesses here today from the Departments of Defense, Veterans Affairs, and State.

It's an honor and a pleasure, Mr. Chairman, as I said last week, to be working with you on this subcommittee. During this second hearing on issues of waste, fraud, and abuse, I am hopeful that we can further hone our focus and develop a proactive agenda for this session and beyond.

Thinking about something you said last week, Mr. Chairman, our work here on this committee really is unique. It's a "zero sum game." Any waste, duplication, or inefficiency we detect -- and hopefully correct -- translates directly into additional funding for other purposes.

These purposes include vital missions, such as protecting our embassies and personnel abroad, providing health care to our veterans, and bringing our troops up to the highest standards of readiness and personal compensation.

Last week, we had a very insightful hearing. We heard from GAO representatives, as well as from the inspectors general of the three agencies.

Under your able direction, Mr. Chairman, those witnesses trimmed down their lists of management challenges to the two, or in some cases three, most significant issues facing each agency. I believe some common themes emerged.

As Mr. Hinton from GAO observed, the agencies are struggling to implement basic tenets of performance-based management. Establishing results-oriented goals with measurable outcomes is a major paradigm shift in management strategy. Although these agencies are struggling ardently, more has to be done.

In addition, determining priorities for agency missions -- and the means for measuring their effectiveness -- can succeed only if they are based on robust foundations. In other words, there must be reliable data collection systems, detailed procedures for financial accountability, and thoughtful mechanisms for determining efficient ways to meet mission needs.

I understand representatives from each agency were here last week for this discussion. So, with that background, I look forward to talking with you today as you respond to these observations and offer observations of your own.

As a final note, I am particularly interested to hear about any initiatives that are underway to address these concerns and that may not have been fully examined in our discussion last week.

Thank you, Mr. Chairman.

Mr. SHAYS. And I also ask further unanimous consent that all witnesses, which is your request, be permitted to include their written statements in the record, and without objection, so ordered.

Let me now ask Mr. Soloway to make his statement.

Mr. SOLOWAY. Thank you very much, Mr. Chairman. It is a pleasure to be here.

A little over a year ago Secretary Cohen launched the Defense Reform Initiative [DRI], a broad-based and ambitious program to fundamentally change the way in which the Department of Defense operates, internally and externally. His call for major departmental reform followed the completion of a comprehensive review of our national military strategy and defense posture. Although it was founded on four initial pillars—elimination, re-engineering, consolidation and competition—the DRI is now the Department's overall framework for change and reform in all aspects of defense.

For the purposes of today's hearing, allow me to briefly touch on our progress in each of these areas.

Base realignment and closure or BRAC is our No. 1 priority. Only through BRAC can we right size the Department and reduce unneeded infrastructure to free up the funds we need to meet the challenges of the 21st century. As such, we will be seeking congressional approval for two more rounds of base closure.

Second, re-engineering, which includes both internal business processes and acquisition reform. In truth, real reform began to take shape some 6 years ago in a vital and rewarding partnership between the Department and the Congress which resulted in passage of the Federal Acquisition Streamlining Act [FASA], and the Clinger-Cohen Act, both of which signaled the common vision and commitment of the Congress and the Department.

At the same time, within the Department, internal change had already begun. Then Secretary of Defense William Perry created a new demand for performance specifications rather than design-specific military specs and standards, and then Under Secretary of Defense-Comptroller, now Deputy Secretary John Hamre, had put into motion a substantial series of internal management reforms.

The DRI embraced and expanded on all of these, and helped create within the Department a critical partnership committed to change and reform that encompasses all aspects of defense. For example, through the DRI the Department has put in place its first ever Financial Management Improvement Plan. We are working toward continuous improvement in the business practices associated with the Defense Working Capital Funds. We have increased, as well, our focus on electronic commerce, the electronic mall on the internet, and of course the purchase card. By the year 2000 we will be obtaining over 90 percent of our low-value purchases with the card.

Acquisition reform has opened the door to important new flexibility and decisionmaking as well as a new focus on performance. Many programs, including the Defense Acquisition Pilot Programs, are reaping major benefits for both the user and the taxpayer.

For example, the program costs of the Joint Air-to-Surface Stand-off Missile or JASSM have been reduced 44 percent, and the unit costs of the Joint Direct Attack Munition or JDAM have been reduced by approximately 60 percent from the estimated cost. Cycle

time for the JDAM has been reduced 35 percent with a 30 percent reduction in program staffing.

In addition, the Single Process Initiative, where we seek to replace non-value added government specifications on contracts with commercially proven, performance-focused processes, is proving to be a real success as well. Overall, the Defense Contract Management Command reports that the Single Process Initiative has now gone past the half billion dollar mark in savings and long-term cost avoidance, and we have only just begun.

We are also developing new strategies for reducing the long-term operations and support costs of both our new and existing systems, which today represent an enormous drain on our budget. As Congress has directed, for instance, we have identified 10 weapons systems as pilot programs for reduced total ownership cost and are pursuing a range of management actions to achieve that critical goal.

These are but a few ways in which our acquisition world has changed for the better. However, we have a long way to go and our commitment to acquisition reform remains unabated. It is driven by our continued commitment to implementing best business practices, as well as our very real need to access the full range of technology and technology suppliers to help meet the challenges of the future. The barriers to doing so remain significant and must be removed. As such, the Department will be proposing a series of legislative initiatives designed to help us overcome those barriers.

The third area is consolidation, where the story is shorter and simpler. At the outset of the DRI, Secretary Cohen made clear his commitment to re-engineer and reduce headquarters staffs. To date, the Department is right on target to reduce the Office of the Secretary of Defense by 33 percent by the end of this fiscal year; the Joint Staff by 29 percent by fiscal year 2003; the defense agencies by 21 percent by fiscal year 2001; and the DOD field and related activities by 36 percent by fiscal year 2001.

Competition is also a pillar of defense reform, and on that important topic I would like to make just a couple of brief comments.

First, the key word here is competition. Our goal is to exploit the many advantages of the competitive environment to the benefit not only of the American taxpayer but the warfighters, our customers in the field. Competition saves money and can improve quality. Hence, our goal is not outsourcing, it is competition.

Second, we must recognize that with innovation and creativity come vastly different ways of doing business. When many of the rules and statutes governing competitive sourcing were put in place, we were contemplating very clear choices. Today, particularly as we seek to access the best and most contemporary technologies, the choices are more complex and sometimes lead us to solutions that are virtually impossible to directly compete between the public and the private sectors.

It is the Department's hope that the Congress will continue to work with us in support of implementing such innovation, while we at the same time seek to provide appropriate assistance in cases where the best solutions for the taxpayer and the warfighter result in adverse impacts for our work force.

Third, what we seek is not just lower costs but the best overall value. We have collectively agreed that in selecting commercial suppliers, low cost does not always equal the best value to the government, and it is time for our statutes to recognize that fact for public-private competition as well.

And fourth, as I stated earlier, one of our overarching goals in acquisition reform is our ability to access the full range of technologies and suppliers that exist for any given requirements. So too must this be our goal in competition. Our competitions must be fair, clear and conducted in such a manner that all parties, public and private, walk away, win or lose, feeling like they have been given a fair shake.

The Department has also fully embraced the principles of the Government Performance and Results Act, as evidenced by its fiscal year 2000 GPRA performance plan. In the fiscal year 2000 plan, DOD has established two corporate level goals.

Shape the international environment and respond to the full spectrum of crisis by providing an appropriately sized, positioned and mobile force.

And prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the revolution in military affairs and re-engineering the DOD to achieve a 21st century infrastructure.

Our two corporate goals form the basis for using GPRA as a management tool. The performance goals are supported and evaluated by quantifiable output, which is assessed by using performance measures or performance indicators. Performance measures and indicators quantify the output of the defense program for key measures associated with providing a ready force and preparing for the future. The Department's plan includes 41 performance measures and indicators, all of which have baselines and goals.

Mr. Chairman, members of the committee, the Department of Defense is changing the way that we do business, and the Defense Reform Initiative provides the overarching framework to enable us to achieve these many and crucial goals.

Yesterday, Secretary Cohen and Deputy Secretary Hamre reiterated their commitment to stay on course in the pursuit of real change in the Department. In so doing they also explained how the defense reform umbrella has expanded well beyond the initial four pillars to include quality of life initiatives, logistics reform and homeland security, all in an effort to tie together the many elements of reform and the reality that each is an important part of the Defense Department we envision for the future.

At their press conference they also unveiled a new CD-ROM designed to communicate accomplishments to date and describe the challenges ahead. Further, the CD-ROM includes score cards for most major areas of reform that will enable us to track the progress that we are making. In this regard the Secretary and Deputy Secretary have firmly restated our commitment to performance measures and meaningful results. With your permission, Mr. Chairman, I would like to submit for the record a copy of the CD-ROM as well as a text version. Every Member of Congress did re-

ceive a copy of this CD-ROM yesterday prior to the press conference.

In closing, it is fair to recognize that defense reform is not yet a way of life in the Department. We are, however, making real progress. As we continue to move forward, to encourage and adopt more and more innovation and creativity, mistakes will be made. And just as we have learned from those that we have already seen, so too will we continue to learn from our mistakes as we continue down this complex and difficult road.

Defense reform would never have been possible without the support, encouragement, and partnership we have enjoyed with the Congress, and we are counting on that continuing partnership, that shared commitment to creating a Department of Defense that is optimally prepared to meet the challenges ahead.

I thank you for your time, and we will be happy to answer any questions.

[The prepared statement of Mr. Soloway follows:]

Testimony of

STAN Z. SOLOWAY
Deputy Under Secretary of Defense
(Acquisition Reform)

before the

Subcommittee on National Security, Veterans Affairs, and
International Relations
Committee on Government Reform
U.S. House of Representatives

March 2, 1999

Mr. Chairman, Members of the Committee, it is a great pleasure for me to be here today and I thank you for this opportunity to discuss with you our progress with, and vision for, defense reform.

Mr. Chairman, with your permission, I would like to ask that my complete statement be included for the record and to read a summary statement to the Committee. I will confine my oral statement to a quick overview of our goals, accomplishments and our challenges.

As the Deputy Under Secretary of Defense for Acquisition Reform, my actual portfolio is, of course, acquisition policy. But today, I would like to touch on not only acquisition reform, but defense reform in general, so as to provide the members of this committee with the best possible perspective on the many exciting, important, and we believe, vital, ways in which the department is indeed changing the way it does business.

A little over a year ago, Secretary Cohen launched the Defense Reform Initiative (DRI), a broad-based and ambitious program to change fundamentally the way in which the Department of Defense (DoD) operates, internally and externally. His call for major departmental reform followed the completion of a comprehensive review of our national military strategy, defense posture, and more. It followed as well on the heels of Joint Vision 2010, the report of the Joint Chiefs of Staff upon which the bulk of our strategic thinking and planning is based.

That report told us a great deal about how the world had changed since the end of the cold war. It defined for us a vision of a future battlespace in which superiority is determined primarily by time and information; of a world in which rather than single large conflicts, we are far more likely to face multiple regional conflicts, increasing engagements with rogue nations and transnational groups, and, of course, a world in which asymmetric threats and weapons of mass destruction pose increasingly serious threats.

This newly defined and articulated threat resulted in what is known as the Revolution in Military Affairs; our response to a vastly changed world. And to pay for that Revolution in Military Affairs, it became clear that we need a Revolution in Business Affairs (RBA) as well, one that embodies the best of modern business practices, the ability to access the full range and scope of technologies to meet the speed and agility demanded by the new battlespace, and an absolute commitment to finding the best, most efficient means of delivering goods and services to our warfighters.

The Defense Reform Initiative is the Department's overall architecture for the RBA. The DRI cuts across all aspects of the Department of Defense and was initially founded on four basic pillars:

- *elimination, through the reduction of excess infrastructure and redundancies. As you know, Secretary Cohen has made clear that additional base closure rounds are critical to the Department's ability to meet its mission efficiently and effectively;
- *re-engineering, through the adoption of modern business practices to achieve world class standards of performance;
- *consolidation, through the streamlining of organizations to remove redundancies and maximize synergy; and
- *competition, through the application of market pressures and the known benefits of a competitive environment to improve quality, reduce costs and respond to customer needs.

BRAC remains our **number one priority** because it is the most effective mechanism for the Department to reshape its infrastructure by properly aligning base structure to support the missions of the new millennium and it will provide us more savings that can be put into modernization than anything else we might do.

Second, re-engineering, which includes both internal business processes and acquisition reform. In truth, the re-engineering of the Department's business practices began several years before the DRI was born. Indeed, real reform began to take shape some six years ago, in a vital and rewarding partnership between the Department and the Congress. The passage of the Federal Acquisition Streamlining Act, or FASA, sent a powerful message about the common commitment of the Congress and the Administration to meaningful, long lasting change in the way we conduct our business.

There then followed another key legislative product, the Clinger-Cohen Act, which furthered acquisition reform, particularly in the area of information technologies and again signaled the common vision and commitment of the Congress and the Department. Since the passage of Clinger-Cohen we have also gone through an extensive rewriting of key elements of the Federal Acquisition Regulations, all with an eye to improving communications between customer and supplier, availing the government of maximum flexibility to pursue the best and most innovative solutions available; and increasing dramatically our focus on performance, both past and present.

At the same time, within the Department of Defense, internal change had already begun. Through the use of Process Action Teams, composed of experts from the field rather than theorists from headquarters, then Secretary of Defense William Perry created a new demand for performance specifications, (rather than design-specific military specification and standards), an initial framework for electronic commerce/electronic data interchange, and internal process reforms in pre-award contracting, contract administrative services, and systems acquisition management. Then Under Secretary of Defense (Comptroller), now Deputy Secretary, John Hamre also put into motion a substantial series of internal management reforms designed to improve the efficiency of the Department.

The Defense Reform Initiative embraced all of these reforms and has helped to create within the Department a critical partnership committed to change and reform that encompasses all elements of defense.

Today, the Defense Reform Initiative has been the source of a wide range of policy changes that reflect our continued commitment to change and improvement.

- We are continuing to implement and expand our financial management reforms, as called for in the Department's first ever Financial Management Improvement Plan.
- We are working toward continuous improvement in the business practices associated with the Defense Working Capital Funds, where our goal is to reduce costs and address customer concerns, in ways that are acceptable to and supported by the Congress.

- Just as acquisition reform has renewed the Department's focus on customer service and on the performance of those we depend on for goods and services, so the DRI has focused the Department's attention on internal performance. Indeed, one of the DRI's most notable accomplishments has been the negotiation between the Defense Agencies and their customers of annual performance contracts, which will serve as instrumental tools by which to measure future Agency performance against the needs of their customers.

In order to measure future Agency performance against the needs of their customers, nine separate contracts (DFAS, DLA, DISA, DeCA, DHP, DCAA, DoDEA, DSS and DSCA) are currently undergoing final review and cover our largest business areas. These contracts have helped each organization articulate its primary business areas and the customers for each, identify resources for each area, propose quality and efficiency standards, and develop benchmarking and customer survey strategies. While many of our organizations had already done some of these, the performance contracts have standardized and expedited their efforts. In addition, the performance contracts have facilitated full customer participation in the planning and program development of the provider organizations thus enhancing their overall effectiveness.

- The Department has fully embraced the principles of the Government Performance and Results Act (GPRA) as evidenced in its FY 00 GPRA Performance Plan. In this FY 00 Plan, DoD has established two corporate-level goals.

Goal 1. Shape the international environment and respond to the full spectrum of crises by providing appropriately sized, positioned, and mobile forces.

Goal 2. Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs and reengineer the Department to achieve a 21st century infrastructure.

Our two corporate goals form the basis for using GPRA as a management tool. They serve as strategic goals for the Department. The document that introduced them, the May 1997 *Report of the Quadrennial Defense Review (QDR)*, is the Department's strategic plan.

The Department's annual performance plan plots a short-term course toward achieving its multiyear strategic plan. Annual performance goals, hereafter referred to as performance goals, establish a measurable path to incremental achievement of specific corporate goals articulated in the strategic plan. These performance goals are supported and evaluated by quantifiable output, which is assessed using performance measures or performance indicators. Performance measures and indicators quantify the output of the defense program for key measures associated with providing a ready force and preparing for the future. The Department's FY 00 Plan includes 41 performance measures/indicators, all of which have baselines and goals.

- Electronic commerce is also a key element of the Defense Reform Initiative. The FY 1996 baseline for composite electronic contracting was 28%. In FY98, we were at 40%, a third of the way toward reaching our goal of 64% paperless contracting by the end of FY 2000.

- The future of the E-Mall (Electronic Mall on the Internet) represents an unlimited number of storefronts and will include all the DoD electronic catalogs throughout the Military Services. Tremendous progress has already been made as cumulative sales have increased from \$14.3 million in August 1998 to \$19.6 million in December 1998. Sales in 1999 are expected to increase to \$25.5 million.
- In 1996, we were using the purchase card to buy 52% of our purchases valued at \$2500 or below. This left approximately 3 million requests still streaming into the purchasing offices. In 1998, 86% of purchases valued at and below \$2500 were purchased with the card. By the year 2000, we will be obtaining over 90% of such purchases with the purchase card. In FY98 the savings associated with the use of the purchase card was approximately \$275 million and, in FY2000, savings are expected to reach approximately \$463 million.
- Today, with our increasing use of electronic commerce and reliance on information technologies, we are also increasing our focus on the extraordinary potential of, and unique security issues associated with cyberspace.

In the area of acquisition reform, we now have some three or four years of implementation under our belt and the results are exciting. Overall, acquisition reform has led to far more open communications between supplier and customer—internally and externally—which, in any enterprise, is a key to excellence. Acquisition reform has also opened the door to important new flexibilities in decision-making as well as a new focus on performance, or output, rather than inputs.

As a result of acquisition reform, many programs, including the Defense Acquisition Pilot Programs, are reaping major benefits for both the user and the taxpayer. These programs' innovative techniques have resulted in faster cycle times, reduced contract costs, and more efficient program staffing:

- The Joint Air-to-Surface Standoff Missile, or JASSM, a next-generation air launched cruise missile that will provide the Air Force and Navy a standoff capability greater than currently exists, has made major gains from acquisition streamlining. Estimated program costs have been reduced 44%. JASSM will also have a complete "bumper-to-bumper" 15-20 year warranty.
- The Joint Direct Attack Munition, or JDAM, a strap-on guidance kit to enhance the delivery accuracy of 1000 and 2000 pound bombs, employed acquisition reform to achieve lower development and production costs, faster schedules, and lower unit costs. The JDAM team reduced unit cost by approximately 60% below the estimated requirement cost. Overall, cycle time for JDAM was reduced 35% with a 30% reduction in program staffing. JDAM reduced projected O&M costs by \$49.4 million (86.8%) through the use of a 20-year warranty.
- The Fire Support Combined Arms Tactical Trainer (FSCATT) program has achieved a 33% reduction in cycle time with a 13.5% reduction in estimated contract cost and 27% reduction in program staffing.
- The Joint Primary Aircraft Training System (JPATS) program has achieved a 49% reduction in estimated contract cost and a 47% reduction in program staffing.

- The F-117 program has achieved a 60% reduction in cycle time with 42% reduction in program staffing. The F-117 engine expects to avoid \$34.6 million in nonrecurring support equipment costs by using commercial logistics support.

In addition, the Single Process Initiative, where we seek to replace non-value added government specifications in contract with commercially proven, performance-focused processes, is proving to be a real success as well. For example, we have converted more than 200 facilities to ISO 9000 and 9001 quality standards; and just recently we launched a new pilot program in which two of our major suppliers will utilize commercial packaging specifications, rather than our traditional military-unique requirements, for all of their DoD business.

Overall, the Defense Contract Management Command reports that the Single Process Initiative has now gone past the half billion dollar mark in savings and long term cost avoidance. That number is significant because SPI has been primarily focused on discreet, low-hanging fruit. As we expand our SPI focus to more global changes and initiatives, those savings and cost avoidances will grow exponentially.

We are also aggressively tackling the issue of reducing the total ownership cost of our weapons systems. As our legacy systems continue to age, and new systems are developed, we are developing new strategies for reducing their long-term operations and support costs, which today represent an enormous drain on our budget. As Congress has directed, for instance, we have identified 10 weapons systems as pilot programs for reduced total ownership cost and are pursuing a range of management actions to achieve that critical goal. This is in addition to the need to re-engineer our product support system to drive down cost and increase systems availability.

These are but a few examples of the ways in which our acquisition world has changed for the better. However, we have a long way to go and our commitment to acquisition reform remains unabated. It is driven by our continued commitment to implement best business practices, as well as our very real need to access the full range of technologies, and technology suppliers, to help meet the challenges of the future. It is sobering to note that the amount of research and development conducted in the information technology industry is now far greater than the Department's entire research and development budget. What is even more sobering, however, is the reality that many, by some measures, over 80% in fact, of the leading technology companies in the world do not do business with the Department during the critical research and development phase...yet it is precisely during that period that our engagement is so critical.

In addition, our reforms must more directly address the reality that the vast majority of our dollars go not to new systems, but to upgrading and maintaining existing systems. This reality creates an imperative to identify ways in which to refresh more easily legacy systems with new, state-of-the-art technologies as one key means of reducing the growing operating and support costs we now face. In addition, as many of the Department's leaders have made clear, real logistics reform and modernization is, and must be, among the highest priorities of the Department.

Thus, we are compelled to move forward with more reform. In so doing, we seek to overcome the barriers that remain to attract leading technology and other companies to do business with DoD, to identify and take advantage of best commercial practices wherever they can help us meet our mission, and, through it all, also to identify ways in which to reduce costs and thus free up funds for modernization. As part of that effort, the Department will be proposing a series of legislative initiatives designed to help us more fully inculcate best business practices and to

broaden significantly the scope of technology solutions available to the Department by removing the barriers that continue to prevent so many businesses from entering the DoD marketplace. Those proposals, which are now being discussed and refined internally, will be forwarded to the Congress in the very near future.

In the area of consolidation, the story is shorter and simpler. At the outset of the DRI, Secretary Cohen made clear his commitment to re-engineer and reduce headquarters staffs. To date, the Department is right on target to reduce:

- *the Office of the Secretary of Defense by 33% by the end of this fiscal year;
- *the Joint Staff by 29% by FY03;
- *the Defense Agencies by 21% by FY01;
- *the DoD field and related activities by 36% by FY01; and
- *the Military Departments' headquarters staffs by an additional 10% by FY03.

All of these reductions are in addition to the significant reductions taken by the Services between FY92 and FY95, and all are also reflected in our most recent budget submissions. And none of this includes the roughly 45% reduction in the acquisition workforce that has taken place since 1990.

In addition to reducing, we have restructured. As an example, the Defense Threat Reduction Agency (DTRA) was created and opened its doors on October 1 of last year. DTRA merges the missions of the On-Site Inspection Agency; the Defense Special Weapons Agency; and the Defense Technology Security Administration and some functions of the Office of the Assistant to the Secretary of Defense for Nuclear, Chemical, and Biological Defense Programs. And while the Secretary of Defense retains the crucial jurisdictional oversight and authority to address new and evolving challenges, the establishment of DTRA allows the Department to really focus attention on the emerging threats from asymmetric warfare and weapons of mass destruction.

Finally, competition is a pillar of defense reform. First, the key word here is competition...for our goal is to exploit the many advantages of a competitive environment to the benefit not only of the American taxpayer, but the warfighters...our customers, in the field. As has been repeatedly demonstrated, not only in the private sector, but in government as well, competition saves money and can improve quality. Virtually every study I am aware of, from the General Accounting Office, to OMB, to a wide range of independent analyses, has shown that the use of competition in the Federal Government results in savings ranging anywhere from 20 to 45%.

Hence, our goal is not outsourcing...it is competition. It is to identify, through a fair, transparent, and meaningful competitive process, the source of supply or service that represents the best overall value to the Department. We have years of public-private competitions from which we can learn and are learning...for this too is a process of continuous improvement.

Second, we must recognize that with innovation and creativity come vastly different ways of doing business. When many of the rules and statutes governing competitive sourcing were put in place, we were contemplating very clear choices...whether function "a" could be best done internally or by a contractor. Today, the choices are far more diverse and far less clear. I suspect we will continue to see circumstances in which real re-engineering or technology advances lead us to solutions that bear little resemblance to the original means by which the work involved is being done. In such cases, it could well be virtually impossible to compete the work directly between the public and private sectors.

It is the Department's hope that the Congress will continue to work with us in support of implementing such innovation, while we, at the same time, seek to provide appropriate assistance in cases where the best solutions for the taxpayer and the warfighter result in adverse impacts for our outstanding and committed workforce.

Third, what we seek is not just lower costs, but the best overall value. However, the current rules continue to require us too often to make decisions based solely on cost...without being able to utilize discretion and good business judgement. We have collectively agreed that in selecting commercial suppliers, low cost does not always equal the best value to the government...and it is time to clarify that fact for public-private competitions as well.

Fourth, as I stated earlier, one of our over-arching goals in acquisition reform is the ability to access the full range of technologies and suppliers that exist for any given requirement. So too must this be our goal in competition. Our competitions must be fair and clear, and conducted in such a manner that all parties, public and private, walk away, win or lose, feeling they have been given a fair shake.

Mr. Chairman, members of the committee, the Department of Defense is changing the way we do business. Just as industry has changed to be competitive and reflect the realities of a changing world, so too must the Department reform in order to support effectively the warfighter as we face the security challenges now and into the next millennium. The Defense Reform Initiative provides an overarching framework to adopt better business practices, pursue commercial alternatives, consolidate redundant functions, streamline organizations, reduce excess infrastructure, and ensure access to cutting edge technologies.

Yesterday, Secretary Cohen and Deputy Secretary Hamre reiterated their commitment to stay on course in the pursuit of real change in the Department of Defense. In so doing, they also explained how the defense reform umbrella has expanded well beyond the initial four pillars of the DRI. It includes such things as overall quality of life initiatives and other efforts to improve recruitment and retention in the military. This expansion will tie together the many elements of reform and the reality that each is an important part of the Defense Department we envision for the future.

At their press conference, they also unveiled a new CD-ROM designed to communicate accomplishments to date and describe the challenges ahead. Further, the CD-ROM includes score cards for each major area of reform that will enable all of us to track the progress we are making. In this regard, the Secretary and Deputy Secretary have firmly restated our Department's commitment to performance measures and meaningful results. With your permission, Mr. Chairman, I would like to submit for the record a copy of this CD-ROM and a text version as well.

In closing, it is fair to recognize that defense reform is not a way of life in the Department. We are, however, making real progress. Some elements of reform have been achieved – some have not – and more reforms are still unfolding. As we continue to move forward, to encourage and adopt more and more innovation and creativity, mistakes will be made. We have already seen some and will undoubtedly see more. And just as we have learned from those we have already seen, so too will we learn from our mistakes as we continue down this difficult and complex road.

Defense reform would never have been possible without the support, encouragement, and partnership we have enjoyed with the Congress. And we are counting on that continuing partnership, that shared commitment to creating a Department of Defense that is optimally prepared to meet the challenges ahead.

Thank you for your time – I will be happy to answer any questions you might have.

Mr. SHAYS. Thank you. Now we will hear from the Department of Veterans Affairs, Mr. Powell, who is accompanied by Mr. Catlett and Mr. Sullivan.

Mr. POWELL. Thank you, Mr. Chairman and Congressman Tierney. I am pleased to appear before you to testify on the actions we are taking at the Department of Veterans Affairs to address the management issues identified by the General Accounting Office and the VA's Inspector General. I have submitted my full statement to the subcommittee and request that statement be made a part of the hearing record.

The VA is facing two major management challenges: improving the infrastructure of our health care system and resolving the shortcomings in our benefits claims processing. I believe this supports what you have already heard from our IG and the GAO. These challenges are not new, nor are they easily conquered. Indeed, we have been dealing with both issues for a long time. By their very nature, they may never go away completely. We will always be looking to identify and implement better ways to deliver our services and benefits.

This morning I wish to update you on a few of the initiatives underway at VA which demonstrate our commitment to providing first class service to veterans and managing the resources entrusted to us.

VA has long been regarded as a leader in the Federal debt management community. Over the past year, we have been moving closer to our goal of consolidating all major VA debt programs into one centralized automated collection system. We have made significant progress toward automating the billing and payment processing of first party medical receivables, and have laid the groundwork for consolidating the management of all debts at our Debt Management Center in St. Paul, MN. Debt collection is a high priority for the Department, and we expect to see continued success in this area in fiscal year 1999.

VA has completed the year 2000 renovation of its entire mission critical computer software applications. This includes all payment related applications and applications supporting health care. We have placed 97 percent of these applications into production and have verified their ability to successfully process year 2000 dates. At the same time, all VA offices are verifying the readiness of their physical plants and workplace equipment, as well as other software, to ensure that they will continue to operate after December 31, 1999.

We are collaborating internally and with other Federal entities such as Treasury and the U.S. Postal Service in preparing and implementing business continuity and contingency plans. These plans will ensure that payments to veterans, fiduciaries, employees and vendors are made without interruption on January 1, 2000 and beyond.

It was gratifying to learn Congressman Horn awarded VA an "A minus" for our progress in preparing for the year 2000. We are confident we can raise that grade to an "A" in the next reporting cycle.

My top priority as the chief financial officer is to obtain an unqualified opinion on VA's fiscal year 1999 financial statements. We

are down to one qualification, and we fully expect to resolve that issue before the end of this fiscal year.

VA has made significant progress toward developing and implementing a results-oriented framework for managing and evaluating our programs. Major advancements are highlighted in our fiscal year 2000 performance plan which was delivered to Congress on February 1. Foremost among those advancements are a greater emphasis on outcomes; a greater focus on highest priority goals and measures; increased attention to validation and verification of data, and the identification of total budget resources for each program.

Our medical care program deserves particular note in this area. The results of the Government Performance Project just conducted by Syracuse University gave VA's Veterans Health Administration an "A" for managing for results. As a side note, VHA received the only "A" among the 15 Federal entities evaluated.

During the last year the issue of data validation and verification has been a major focal point for the Department. Our fiscal year 2000 performance plan includes a very frank discussion of VA's problems with data quality. However, it also identifies the actions we are taking to resolve those problems. We are working closely with VA's Office of Inspector General on a series of detailed performance audits.

At GAO's invitation, we met with their staff last month to discuss our data validation and verification efforts. GAO is preparing a best practices report on this topic. They have identified VA as one of the agencies they intend to commend in their report.

Finally, we have had notable success in identifying the total staffing and funding associated with each of our programs. We expect to make additional progress in this area as activity-based costing methodologies are implemented throughout the Department.

Mr. Chairman, the Department of Veterans Affairs is fully aware of the challenges we face. We are proud of the progress we have made, but understand we have much work yet to do. I assure you we are approaching our challenges thoughtfully and resolutely, and look forward to continued success.

This concludes my opening statement. I would be happy to answer any questions you or the Members may have.

[The prepared statement of Mr. Powell follows:]

STATEMENT BY

THE HONORABLE EDWARD A. POWELL, JR.
ASSISTANT SECRETARY FOR FINANCIAL MANAGEMENT AND
CHIEF FINANCIAL OFFICER
DEPARTMENT OF VETERANS AFFAIRS

BEFORE THE
SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS AFFAIRS AND
INTERNATIONAL RELATIONS
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

MARCH 2, 1999

INTRODUCTION

As the Department of Veterans Affairs' Chief Financial Officer, I can assure you my office is working closely with VA Administrations and other VA organizations on the necessary steps to address the important management issues identified by GAO and our IG. The Department has a number of accomplishments which have allowed us to address these outstanding issues. In this statement, I will address debt collection, Y2K preparation, consolidated financial statements, and Results Act implementation at the VA. I believe the activity underway throughout the Department in these areas demonstrates a strong management effort to improve service to veterans, as well as a firm commitment to manage the resources entrusted to us.

VA DEBT COLLECTION

VA has long been regarded as a leader in the Federal debt management community. Historically, the management of VA's major debt programs was divided into two categories - - medical care cost recovery (MCCR) and the recovery of VA benefit debts. The Veterans Benefits Administration (VBA) has operated and maintained an automated collection system since 1975 for debts resulting from participation in VA benefit programs. The VBA Debt Management Center (DMC) in St. Paul, Minnesota, assumed control of debts in 1991. The DMC oversees a centralized automated collection system which utilizes every collection tool available to Federal agencies in an efficient operation that emphasizes both the prevention and collection of debt. Delinquent benefit debts currently subject to collection by the DMC fall into two classes. The first class consists of overpayments of monthly benefits, such as compensation, pension and education allowance. The second class contains deficiencies established after foreclosure on mortgage loans guaranteed or made directly by VA.

Over the past year, we have been moving closer to our goal of consolidating all major VA debt programs into one centralized, automated collection system. We have made significant progress toward automating the billing and payment

processing of first-party medical receivables and have laid the groundwork for consolidating the management of debts under the DMC.

VA has also been successful in automating the generation and collection of medical bills at centralized sites. First-party medical care debts more than 90 days delinquent have also been referred to the DMC for collection management activity. This referral implemented a recommendation by the National Performance Review and is consistent with the Department's strategy of achieving maximum consolidations of debt. Through consolidations, VA should increase the collection rate, while significantly lowering the cost of collection.

VA medical care debt is like no other federal debt and bears little resemblance to the loan default and overpayment debt typical of most federal agencies. These debts resemble "revolving" credit accounts, which result in additional non-delinquent charges, that must be accorded due process, being continuously added to the delinquent debt balances. We have initiated plans to have the DMC fully manage the collection of our first party medical debt. We successfully implemented the process whereby the DMC offsets medical debts from current VA benefit payments. This offset process resulted in about \$11 million being collected during FY 1998. The DMC has, and will continue to, refer medical debt to Treasury for administrative offset, including tax refund offset.

As of January 1, 1999, \$1.1 billion of VA debt was 180 days or more delinquent. Of this amount, about \$653 million was eligible for cross-servicing and the DMC managed over 90 percent. VA staff continues to employ all available tools for managing and reducing VA debt, including automated and special collection letters, automated payment processing, benefit and salary offset, Federal salary offset, IRS tax refund offset, referrals of debt to the Treasury Offset Program, credit bureau reporting, referrals to private collection agencies, development of compromise payment settlements, referrals to the Department of Justice for litigation, and write-offs.

We are continuing to focus on this issue as a priority and expect continued success with VA debt collection efforts during FY 1999.

YEAR 2000

In addition to completing the renovation of VA's financial systems, VA has completed the Year 2000 renovation of its entire mission-critical computer software applications, including all payment-related applications and applications supporting health care. Ninety-seven percent of these applications have been implemented into production and are successfully processing Year 2000 dates. VA has implemented applications support for health care, compensation and pension, insurance, vocational rehabilitation, education, loan guaranty, financial management, personnel and national cemeteries and corporate administrative

functions. VHA, VBA and every other VA office, including the Austin Financial Services Center will complete all testing and implementations later this month.

In addition to the automated systems work, Administrations and offices are also ensuring the readiness of their physical plants and work place equipment and other software for operation on January 1, 2000. In VA headquarters, Information Technology Systems staff and individual offices are working together to ensure all PCs and other support equipment, phone, power, telecommunications, and related systems will continue operating successfully as the millennium begins. The VA-wide telecommunications infrastructure system is also being readied for Year 2000. VA offices are collaborating on further testing to confirm and validate the effectiveness of the individual efforts to prepare for Y2K. VA offices are also collaborating with each other and with external entities such as Treasury and the U.S. Postal Service in preparing and implementing Business Continuing and Contingency Plans (BCCP). The BCCPs will focus on critical processes such as payments to veterans and beneficiaries, employees, and vendors to ensure uninterrupted operations after December 31, 1999.

I was extremely happy to hear Congressman Horn awarded VA an "A-" grade this week relative to VA's Year 2000 efforts. By our stated deadline of March 1999, we will be fully ready to receive an "A."

VA CONSOLIDATED FINANCIAL STATEMENTS

Obtaining an unqualified (clean) audit opinion on VA's financial statements is my top priority as the Chief Financial Officer. Through the diligent efforts of the Administrations and offices within VA, we are on schedule for completing milestones shown in the Department's Action Plan for removing remaining qualifications on VA's statements.

VA had five qualifications from the audit of our FY 1991 financial statements. The FY 1998 financial audit just released, the VA is down to only one audit qualification associated with the Housing Credit Assistance program. We expect to fully meet the President's goal for a clean opinion on the FY 1999 financial statements audit.

THE GOVERNMENT PERFORMANCE AND RESULTS ACT
IMPLEMENTATION

VA has made significant progress in developing and implementing a results-oriented framework for managing and evaluating our programs. The major advancements are highlighted in our FY 2000 Performance Plan delivered to Congress on February 1 – (a) greater emphasis on outcomes; (b) focus on highest priority goals and measures; (c) in-depth discussion of data validation

and verification; and (d) identification of total budgetary resources for each program.

Although much work remains to be done, we have made a great deal of progress, both in identifying outcome goals and performance measures for our programs, as well as in collecting and evaluating results-oriented information. VA's outcome goals and performance measures are particularly noteworthy with regard to our medical care program. The results of the Government Performance Project just concluded by Syracuse University identified the VA's Veterans Health Administration as the only organization, among the 15 Federal entities they evaluated, to receive a grade of "A" in managing for results. A major reason for VHA's success in this area is the Under Secretary for Health's performance agreements with the directors of each of the 22 Veterans Integrated Service Networks. These performance agreements contain specific performance goals the directors are held accountable for achieving. For the first time, VA has begun to identify outcome goals and performance measures for our benefits programs. This includes compensation and pension, two programs for which the development of outcomes is a very difficult task. Initial reaction within OMB to the FY 2000 performance plan gives the VA credit for addressing outcome goals and measures.

Previous Strategic and Performance Plans submitted by the Department failed to identify a clear sense of priorities. With the FY 2000 Performance Plan, we have

focused on a small number of goals and performance measures VA leaders identified as critical to the success of the Department. The measures cover both the results of our programs as well as the management and administration of these programs. To enhance accountability for results, the Secretary has initiated quarterly reviews focusing on the progress we are making toward achieving our critical performance goals.

During the last year, the issue of data validation and verification has been a major focal point for the Department. Our FY 2000 Performance Plan includes a very forthright discussion of VA's problems with data quality, but also identifies the actions we are taking to resolve those problems. Organizational elements throughout the Department are working very closely with our Office of Inspector General on a series of detailed performance audits. These audits focus on our critical performance information. This initiative sends a strong message throughout VA that we are serious about identifying problems with the quality of our data and taking the appropriate steps to resolve these problems. At GAO's request, we met with them on February 10 to discuss our data validation and verification activities. GAO is preparing a best practices report on this topic and they have identified VA as one of the agencies they intend to highlight in their report.

Finally, we have made notable progress in identifying the total budgetary resources, both in terms of staffing and funding, associated with each of our

programs. This initiative reflects our increased understanding of the costs of operating our programs. We expect to make additional progress in this area as activity-based costing methodologies are implemented throughout the Department.

This completes my statement; I will be happy to respond to any questions the Subcommittee may have.

Mr. SHAYS. Thank you very much, Mr. Powell.

Now we will hear from Mr. Edwards, who is accompanied by Mr. Kennedy.

Mr. EDWARDS. Thank you, Mr. Chairman.

Last week you heard from the GAO and the various Inspectors General, and I was responsible for the State Department's provision of information to the GAO's National Security and Internal Affairs Division which prepared the report "Major Management Challenges and Program Risks—Department of State." Together, Mr. Kennedy and I have responsibility for many of the issues in the GAO report and the Inspector General's letter and testimony last week.

I think it is significant in his transmittal accompanying the GAO report Comptroller General David Walker stated, "The State Department has made progress in addressing the many challenges that GAO has identified. State is now devoting substantial resources to developing a strategy to enhance its information technology capacity and security as well as its financial management systems. In fact, State received an unqualified opinion on its most recent financial statements."

We would like to review today the challenges identified by the GAO and several additional ones in the letter to Secretary Madeleine Albright, that the subcommittee sent to her. I would like to review those in the order that the GAO report identified them.

The first challenge was enhancing the management of security programs for our overseas personnel and property. Clearly the bombings in our embassies in Nairobi and Dar es Salaam last August have refocused attention on the safety of our people and our facilities. Congress worked quickly to enact an emergency supplemental appropriation to address State's immediate needs from this tragedy.

The 1999 emergency supplemental provides a total funding of \$1.4 billion for a total of six different program areas. In order to document how we are managing the emergency supplemental, we have established a coding structure in our financial management system to report obligations and expenditures against these six activities, and have established a monthly reporting internally to monitor our progress. Our objective is to expend these security funds both wisely and promptly. However, the scope of our financial needs to address these worldwide security requirements is daunting.

As a result of our negotiations with OMB on the fiscal year 2000 budget, the President has proposed \$36 million in additional funding to begin planning on up to eight embassy construction projects to be commenced beginning in fiscal year 2001. In addition, the President's budget proposes an advance appropriation for the construction of \$3 billion for the fiscal years 2001 through 2005, with \$300 million in 2001 and increasing by \$150 million a year through 2005.

Subsequent to the budget submission, the Accountability Review Board, which was chaired by Admiral Crowe, substantiated the Department's facilities and security deficiencies and recommended \$1.4 billion per year for construction for 10 years to meet these

needs. We are continuing our discussions with OMB on appropriate funding for security upgrades and facility relocations.

Finally with respect to physical security, most experts agree that a principal factor is setback. The farther a facility is from potential blasts, the less damage results. Lack of this setback is a problem for 88 percent of our embassies and consulates; 229 of our 260 posts lack our 100-foot setback standard. We are addressing this through a vigorous program to expand the setback around our facilities through adjacent property acquisitions, street closures, bollards and barricades, and other devices.

The second GAO challenge was improving our information management systems. Certainly no other management area at State has received more extensive attention than information management. As the GAO report indicates, within the past 6 months a number of substantial achievements have been attained.

First, we created a separate Information Resources Management Bureau under a new Chief Information Officer who has 25 years of experience in information technology.

Second, we have implemented a total of six major improvements, and those are in my statement and I won't read them for you to enumerate those, but these are all very major information technology accomplishments.

Third, we have instituted a capital planning process. Our Information Technology Program Board and our Information Technology Review Board have met numerous times over the past year to rigorously review and approve over 100 projects totaling over \$200 million in funding. Furthermore, we will complete final enhancements to our capital planning process to fully comply with OMB's Circular A-11 guidance in time for the next budget cycle.

Fourth, we have created an IT tactical plan that has been favorably cited by GAO and OMB and other agencies which describes in detail how we are carrying out over 70 key modernization projects this year and next year.

Fifth, we have created an IT vision paper which contains a number of groundbreaking goals for the years 2001 through 2005. This paper was featured in an article in Government Computer News this past month.

Last, we have enhanced our security program in a number of ways. We have a Departmentwide security infrastructure working group. We have appointed a Department-level information systems security officer; we have published a critical infrastructure protection plan; we have installed a state-of-the-art intrusion protection software; and we have developed a network security architecture plan. All of these are in accordance with GAO standards and guidelines.

With respect to the Y2K issue, the Department is confident our program to achieve compliance will succeed and our systems will be ready before the year 2000. At the Department's monthly Y2K Steering Committee meetings chaired by Under Secretary Cohen and attended by all Assistant Secretaries with mission critical systems, and also attended by John Koskinen, chairman of the President's Council on the Year 2000 Conversion, Mr. Koskinen noted the great strides the Department has made toward meeting OMB's goals.

Briefly, State has 59 mission critical systems, and at our February 19, 1999, meeting we reported that we had the following results: 21 legacy systems are compliant; 18 systems completed repairs and replacements by the February 19 meeting and are now compliant; 16 additional systems will complete implementation and be compliant by March 31, 1999; two systems will complete implementation in April; and two systems will complete implementation, one in May and one in the July or August timeframe.

The systems that are beyond March 31, that will be completed in April and May, are sister systems to nearly identical systems already implemented elsewhere in the Department, and the July/August system is the last of a multiple system installed at a number of locations.

To summarize, over 90 percent of our mission critical systems will be compliant by March 31, the OMB deadline; 95 percent by April 30; 98 percent by May 31; and 100 percent by this summer.

Moving on to financial management systems—and in your opening statement, Mr. Chairman, you cited that issue—I am happy to say, when I was asked to join the Department last year as the CFO, I was pleased to learn that we had made sufficient progress to permit our financial management systems to produce auditable financial statements, and we received an unqualified or clean opinion from our Inspector General and the IG's CPA contractor. We were only 1 of 11 agencies last year which received such an unqualified report, and we expect a similar result for the fiscal year 1998 audit which is now in the wrap-up stage as we speak this morning.

In addition, our Foreign Service Retirement and Disability Fund, which is a separate pension system covering 13,000 retired Foreign Service employees and 11,000 active Foreign Service officers, has received an unqualified clean report for the past 5 years.

Finally, State also operates the International Cooperative Administrative Support Services, the ICASS system, which manages and allocates over \$700 million annually in overseas support costs for the 35 agencies which have employees in our embassies and consulates. ICASS is separately audited, and also received an unqualified or clean auditor's report in fiscal year 1997, and we expect the same this year.

Our independent auditors and the Inspector General have identified a number of areas where we can achieve improvements, and we are working to resolve these issues. In addition, our 1998 Federal Managers' Financial Integrity Act report will show that the Department has successfully resolved eight material weaknesses during the past 3 years, and we only have two remaining to be resolved.

I am going to ask one of my colleagues to distribute our 1997 accountability report to accompany this testimony. This is an experimental program authorized by the Government Management Reform Act, and provides in a single document information mandated under a total of seven different laws, including our audited financial statements and our GPRA comments. And also that report would be repeated for 1998. It is in process, and we expect that to be issued in June 1999.

The third GAO challenge was effectively managing our visa process. We have an increasing number of visitors entering the United States each year. Our accountability report on page 10 shows that for nonimmigrant visas we have——

Mr. SHAYS. I am going to ask you to summarize your last three points.

Mr. EDWARDS. I will be happy to do that, Mr. Chairman.

Our visas are constant, but we have a visa waiver program covering 12 million visitors in addition to the 7 to 8 million who get visas, and this of course has impacted our economy favorably with a total of 20 million visitors a year.

The fourth GAO challenge was effectively reorganizing our foreign affairs agency. Mr. Kennedy, who is here with me, prepared for the State Department that report which was filed by the President in late December, and can speak to your questions on that.

Last, with respect to meeting GPRA standards, we have filed a 1999–2000 performance plan which amends the earlier 1999 plan. We have made major efforts to improving our GPRA standards. We have the same issues that my colleagues spoke about earlier, and that is identifying appropriate baselines and benchmarks so we can link our expenditures to our performance outcomes.

In summary, Mr. Chairman, the State Department faces daunting challenges, both in foreign policy and in improving our information technology and infrastructure. The GAO official who prepared the January report, who you heard from last week, acknowledged that State has been administering foreign affairs for too many years on the cheap. Particularly in the area of security, we must obtain the additional funding to have safe facilities for our employees, employees of other agencies in our embassies, and for visitors to our facilities. We need the continued assistance of Congress to obtain these resources, and I would be pleased to answer questions you and your colleagues may have at this point.

[The prepared statement of Mr. Edwards follows:]

**STATEMENT OF BERT T. EDWARDS
CHIEF FINANCIAL OFFICER
U.S. DEPARTMENT OF STATE
BEFORE THE SUBCOMMITTEE ON NATIONAL SECURITY, VETERANS
AFFAIRS AND INTERNATIONAL RELATIONS OF THE COMMITTEE ON
GOVERNMENT REFORM, U.S. HOUSE OF REPRESENTATIVES**

March 2, 1999

Good Morning. I am Bert T. Edwards, Chief Financial Officer of the Department of State. With me today is Patrick F. Kennedy, our Assistant Secretary for Administration who has also had the distinction over the past few years as serving extended periods as Acting Under Secretary of Management and Acting Assistant Secretary for Diplomatic Security.

I was responsible for coordinating the Department's provision of information to the GAO's National Security and International Affairs Division, which prepared the January 1999 Report, "Major Management Challenges and Program Risks – Department of State." Together, Mr. Kennedy and I have responsibility for many of the issues in the GAO Report and Inspector General's letter, which the Subcommittee will review today.

In his transmittal accompanying the GAO Report, Comptroller General David M. Walker states:

"The (State) Department has made progress in addressing many of the challenges GAO has identified. State is now devoting substantial resources to developing a strategy to enhance its information technology capacity and security as well as its financial management systems. In fact, State received an unqualified opinion on its most recent financial statements..."

We would like to review the key challenges identified by the GAO and several other issues identified by the Subcommittee in its February 10, 1999, letter to Secretary of State Madeleine Albright.

The GAO Report described four challenges facing the State Department.

- ❑ Enhancing the Management of Security Programs for Overseas Personnel and Property
- ❑ Improving Information and Financial Management Systems
- ❑ Effectively Managing the Visa Process

□ Effectively Reorganizing Foreign Affairs Agencies

The Subcommittee also requested comments on the Department's progress on meeting performance and accountability measurements and goals under the Government Performance and Results Act.

**Enhancing the Management of Security Programs
for Overseas Personnel and Property**

The bombings of our embassies in Nairobi and Dar es Salaam last August 7 have refocused attention on the safety of our people and facilities. Congress worked quickly to enact an Emergency Supplemental Appropriation to address State's immediate needs from this tragedy. The 1999 Emergency Supplemental provides funding for the following.

\$ 200 million – To rebuild the destroyed embassies in Nairobi and Dar es Salaam

1,195 million – For worldwide facilities security upgrades – Enhanced local guards, perimeter security, monitoring devices, etc.

50 million – For disaster assistance to Kenya and Tanzania

26 million – For anti-terrorism base funding

20 million – For anti-terrorism training for other countries

3 million – To establish an Overseas Presence Advisory Panel which will review utilization of resources overseas

\$1,494 million

In order to document how we are managing the Emergency Supplemental, we have established a coding structure in our financial management system to report obligations and expenditures against these activities, and have established a monthly reporting schedule internally to monitor our progress. Our objective is to expend these security funds both wisely and promptly. However, the scope of our financial needs to address these worldwide security requirements is daunting.

As a result of our negotiations with OMB on the FY 2000 Budget, the President has proposed \$36 million in additional funding to begin planning on up to eight embassy construction projects to be commenced beginning in FY 2001. In addition, the President's Budget includes an advance appropriation for future overseas facility

construction of \$3 billion between Fiscal Years 2001 – 2005, beginning with \$300 million in FY 2001, and increasing by \$150 million per year to \$900 million in 2005. The Accountability Review Board, chaired by Admiral Crowe, substantiated the Department's facilities and security deficiencies and recommended \$1.4 billion per year for construction over 10 years to meet these security needs. We are continuing our discussions with OMB on appropriate funding for security upgrades and facility relocations.

With respect to security, most experts agree that the principal factor is setback – the farther a facility is from a potential blast, the less damage results. Lack of this setback is a problem for 88% of our embassies and consulates (229 of 260 posts lack the 100-foot setback standard). We are addressing this through a vigorous program to expand the setback around our facilities through adjacent property acquisitions, street closures, bollards and barricades, and other devices.

Improving Information Management Systems

Perhaps no management area at State has received more extensive attention than information management. As the GAO Report indicates, within the past six months, substantial accomplishments have been achieved.

- ❑ Creation of a separate Information Resources Management Bureau (IRM) under a new CIO with 25 years experience in information technology.
- ❑ Implementation of major improvements: (1) installation of a modern technical infrastructure, ALMA, at over 180 posts; (2) migration from multiple e-mail packages to a single modern e-mail system; (3) a major upgrade to our mainframe computers; (4) selection of a "best of breed" software package for our formal cables; (5) initiation of a program that will modernize emergency radio systems at all our posts in the next year; and (6) further modernization of numerous consular, foreign policy and administrative applications.
- ❑ Institution of a thorough IT Capital Planning process. Our IT Program Board and our IT Technical Review Board have met numerous times over the past year to rigorously review and approve over 100 projects totaling over \$200 million in funding. Furthermore, we will complete final enhancements to the Capital Planning process to fully comply with OMB's Circular A-11 guidance in time for the next budget cycle.
- ❑ Creation of the IT Tactical Plan that has been favorably cited by OMB, GAO and other agencies which describes in detail how we are carrying out over 70 key modernization projects in FYs 1999 and 2000.

- Creation of an IT Vision Paper that contains five ground-breaking IT goals for the years 2001-2005. This paper was featured in an article in *Government Computer News* last month.
- Enhancements to our security program: (1) established a Department-wide Security Infrastructure Working Group; (2) appointed a Department-level Information Systems Security Officer; (3) published a Critical Infrastructure Protection Plan; (4) installed state of the art intrusion protection software; and (5) developed a Network Security Architecture Plan.

The Department is confident our program to achieve Y2K compliance will succeed and our systems will be ready well before the year 2000. At the Department's monthly Y2K Steering Committee meetings chaired by Under Secretary Cohen and attended by Assistant Secretaries and John Koskinen, Chairman of the President's Council on Year 2000 Conversion, Mr. Koskinen noted the great strides the Department has made toward meeting OMB's goals. Briefly, State has 59 'Mission Critical' systems. At our February 19, 1999, meeting we reported to Under Secretary Bonnie Cohen and John Koskinen the following.

- 21 Legacy systems are compliant
- 18 Systems completed repairs/replacements by February 19, 1999, are now compliant and implemented
- 16 Systems will complete implementation and be compliant between February 19 and March 31, 1999
- 2 Systems will complete implementation and be compliant in April 1999
- 2 Systems will complete implementation and be compliant later (1 in May and 1 in July/August)

59 Total Mission Critical Systems

The systems scheduled for implementation in April and May are sister systems to systems already implemented elsewhere in the Department, and the July-August 1999 system represents the last installation of the same system installed at multiple locations. To summarize, over 90% of our Mission Critical systems will be Y2K-compliant by the OMB March 31, 1999, deadline, 95% by April 30, 98% by May 31, and 100% in the Summer.

Improving Financial Management Systems

When I was asked to join the Department last year as its CFO, I was pleased to learn that sufficient progress had been made in our financial management systems to permit an independent audit by our Inspector General and the OIG's independent CPA firm contractor. State was one of only 11 major Federal agencies to receive an unqualified ("clean") auditor's report in our FY 1997 audit, and we expect a similar report this year for the FY 1998 audit now being completed.

In addition, our Foreign Service Retirement and Disability Fund, the separate pension system for 13,000 retired and 11,000 active Foreign Service employees, has received unqualified ("clean") auditor's reports for the past five years. State also operates the International Cooperative Administrative Support Services ("ICASS") system, which manages and allocates over \$700 million in overseas support costs for 35 U.S. Government agencies operating in our embassies and consulates abroad. ICASS is separately audited, and received an unqualified ("clean") auditor's report in FY 1997.

Our independent auditors and the Inspector General have identified areas where State can achieve improvements, and we are working to resolve these issues. In addition, our 1998 Federal Managers' Financial Integrity Act report will show that the Department has successfully resolved eight material weaknesses in internal controls during the past three years, and we have only two remaining to be resolved.

The State Department is one of only 12 major agencies which issues an *Accountability Report*. This is an experimental program authorized by the Government Management Reform Act. The *Accountability Report* provides, in a single document, information mandated under a number of statutes.

- ❑ Audited financial statements required by the Chief Financial Officers Act and the Government Management Reform Act
- ❑ Internal control and compliance reporting pursuant to the Federal Managers' Financial Integrity Act
- ❑ Collection of monies owed to the U.S. Government mandated by the Debt Collection Improvement Act
- ❑ Requirements of the Federal Civil Penalties Inflation Adjustment Act
- ❑ Vendor payment timeliness required by the Prompt Payment Act
- ❑ Follow-up status on OIG recommendations under the Inspector General Act
- ❑ How documented results compare with plans in accordance with the Government Performance and Results Act

I have provided a copy of the 1997 *Accountability Report* for the Subcommittee's review. The 1998 *Report* is in process, and will be issued in June 1999.

Effectively Managing the Visa Process

An increasing number of foreign visitors are entering the U.S. each year. Our *Accountability Report* on page 10 shows a relatively steady issuance level of non-immigrant visas at 7.0 to 7.8 million annually for the past five years. The chart does not

show the number of foreign visitors from countries with a history of extremely low visa fraud. These visitors are allowed to enter the U.S. for 90 days without a visa under a Congressionally-authorized visa waiver program initiated in 1988. During the past five years, the numbers of participating countries has gradually increased to 26, and the number of foreign visitors using visa waivers has increased during the past five years from 9 million to over 12 million, compared to 7.5 million visitors from non-eligible countries. The visa waiver program has permitted State to focus its visa activities in those countries where the risk of fraud is greatest, while maximizing the favorable economic impact of nearly 20 million foreign visitors annually.

We are using several new technologies to protect our borders.

- Automated namechecks and machine-readable visas are available at all visa-issuing posts worldwide.
- Sophisticated algorithms to match foreign language name variations have been developed.
- The Border Crossing Card Program, mandated by the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, was inaugurated to provide additional protection against illegal immigration at U.S. borders.
- The TIPOFF Program helps officers at ports of entry to identify international terrorists and members of organized crime groups based on all-source, U.S. intelligence information. TIPOFF has been highly successful in intercepting terrorists and other felons, preventing their entry into the United States.

These border security activities have been almost entirely funded from nonappropriated funds received from visa fees paid by visitors to the United States. Our challenge in the visa process is sufficient trained personnel and equipment at high volume posts to utilize the technologies.

Effectively Reorganizing Foreign Affairs Agencies

Assistant Secretary Kennedy managed the preparation of the Report filed by the President with the Congress in late December 1998 on our plans to integrate the Arms Control and Disarmament Agency (ACDA), and the public diplomacy and exchange activities of the U.S. Information Agency (USIA) into the Department of State. ACDA becomes part of State on April 1, 1999, and USIA on October 1, 1999. The integration will cover ACDA's 250 employees and 1,900 employees of USIA.

The Report outlines how the ACDA and USIA programs and employees will be integrated with the Department of State as required by the integration legislation enacted by Congress in October 1998.

Meeting GPRA Standards

The Department continues to work toward full implementation of the Government Performance and Results Act (GPRA), and significant improvements have been achieved in the last year. Our strategic and diplomatic readiness goals have been defined in our *Strategic Plan*. Many of our accomplishments are described in the *Accountability Report*. And, our FY 1999-2000 Performance Plan has recently been submitted to the Congress. This Plan is a major improvement over our FY 1999 Performance Plan and, in fact, replaces it. However, admittedly, we have a long way to go before we can directly link our expenditures to individual goals and in turn to our accomplishments.

To continue our progress in meeting GPRA requirements, we began to upgrade our Mission Performance Plan and Bureau Performance Plan process in FY 1997. New software was recently distributed to each post to facilitate the FY 2001 planning process. We are working to develop better post-level, bureau-level, and Department-wide baselines and benchmarks to measure our performance.

Summary

The State Department faces daunting challenges, both in foreign policy, and improving our information technology and infrastructure. The lead GAO official who prepared the January 1999 Report summarized the root of our challenges when he observed "State has been administering foreign affairs for too many years on the cheap." Particularly in the area of security, we must obtain adequate funding to have safe facilities for our employees, employees of the other U.S. Government agencies serving at our embassies, and for visitors to our facilities. We will need the continued assistance of the Congress to obtain the resources to meet these challenges.

We would be pleased to answer your questions.

Mr. SHAYS. Thank you very much for accommodating our needs. All of your statements were very helpful. I realize that they are general in nature and somewhat short. I don't want Defense and VA and State to think that our common practice is going to be to bring you up in a line and you have to listen to everybody else's presentation. The purpose of today's hearing is to help us focus; to help guide this committee in the next 2 to 4 years; where this committee is going to go in utilizing our very small resources and what we are going to focus in on.

At this time I would ask Mr. Tierney if he has questions.

Mr. TIERNEY. Thank you.

Mr. Soloway, just a question generally. You talked about competition to a large extent and what you thought the benefits on that are. Perhaps it is my perspective on this thing, but it seems to me that the only area that we think that less competition is better for the consumer is in the military industries, where we are encouraging consolidation and merger so we have less people bidding on contracts. Has there been any rethinking on this particular direction?

Mr. SOLOWAY. I think if you look at the most recent history in terms of the Department's position on those consolidations, we have actually taken a stand on several, the most obvious being the Lockheed case not too long ago. We are now in the process of reviewing the most recent in the shipyard business with the General Dynamics/Newport News proposal which has been in the media over the last several weeks. So the Department is taking a very serious look at making certain that we can maintain competition, and to inject and intercede where we believe that competition is being threatened.

And so from that perspective I think we are taking a very serious look at it, but I think it goes beyond—my comments about competition go beyond that. First of all, in the areas beyond that major tier of contracting, the prime contractor that we all talk about every day, the competition continues to be fierce. For instance, more than half of our money goes to buying services, much of it in the information technology world, and that is a very robust marketplace where there is no issue of a lack or limit on competition.

Second, the competition that I was referring to more specifically in my testimony is our commitment to competing those positions within the Department that we deem to be commercial in nature, in other words, positions that may well be able to be performed by commercial contractors versus having it done by government employees. Those competitions almost always are going to involve public-private competitions, where we have a process through OMB Circular A-76 which provides a methodology for those competitions.

The history of that has demonstrated to us that just the injection of competition into that process achieves roughly a 20 percent savings at minimum, as high as in the 40 to 45 percent range, and that is a figure which has been pretty well documented in most of the studies that I have seen inside the government and outside. We have committed to competing upwards of 200,000 positions over the next several years and expect those positions to yield savings in ex-

cess of \$11 billion, money which we have already planned for in the out year budgets.

So the competition comes in many different levels. But to your specific question, I think the Department has made clear, particularly with the recent history, that we take seriously this question of competition and are reviewing it on a case-by-case basis very seriously.

Mr. TIERNEY. Is that something that you think that this committee ought to take a look at?

Mr. SOLOWAY. You are asking an agency official to tell you to look at something that we are doing.

I don't think that it is necessary at this point, because I do think that the Department is taking a thoughtful and aggressive approach to it. As you acknowledge, there has been a tremendous degree of consolidation in our traditional supplier base.

Mr. TIERNEY. Encouraged by the Department, I might say.

Mr. SOLOWAY. The initial phases definitely were. As indicated in the Lockheed case of this past year, it reached a point in some areas where the vertical integration became a matter of grave concern in the Department, and of course the Department of Justice intervened and said that we couldn't support those consolidations. So I think that our approach at this point is a very thoughtful one, and I don't know that there is any need to take it beyond that at this point.

Mr. TIERNEY. Mr. Powell, we talked during the hearings last week about the prospect of taking some of your older buildings, your older assets, and finding a use for them, but at the same time moving a lot of the Veterans Administration service delivery to outreach clinics or something closer to the veterans. Does your Department have a particular plan in place, or where might we go with that concept of what we do with the older, more costly to maintain buildings and move to a more service-oriented regional delivery?

Mr. POWELL. To the best of my knowledge, this issue has not come to my office. VHA may be working on those plans because they are much closer to the issue. We are very concerned with the enhanced use opportunities that would allow us to effectively utilize our facilities. If we have underutilized buildings we can lease or sell within our facilities we should optimize their use. Obviously, we do have facilities which are not currently engaged.

Mr. TIERNEY. Is it the plan looking forward, then, to maintain all of those buildings and go out to the community-based outreach clinic concept?

Mr. POWELL. I don't mean to be evasive. We have not discussed that particularly as a specific plan. I do know if it is a priority for VHA, so I will get back to you on that.

Mr. TIERNEY. Mr. Edwards, there was talk also last week about the identification of the number of personnel for which we are responsible which are located overseas and the cost of maintaining and providing security for them. Is there any plan in the works of making some identification, some thought of addressing whether or not there are too many people, too widely scattered, or has that been addressed at all?

Mr. EDWARDS. As part of the security supplemental, we have established an Overseas Presence Advisory Panel, and they will be

commencing their activities. March 9 is the initial meeting. The purpose of this group of distinguished individuals, led by an attorney from New York and some people from within State, Admiral Crowe has agreed to join the panel, they will be looking at how we should structure our posts overseas from the standpoint of having larger embassies perhaps serving a group of surrounding countries, and specifically the new facility in Nairobi will be a test case of that. As you know, we are rebuilding an entire new post.

So the overseas presence has been a matter of concern; and of course our concern is that the growth of overseas people in our posts are largely in agencies other than the State Department, so we have the security of those people equally on our mind because they are, in essence, guests in our facilities. So we are taking a look at that. That panel has agreed to complete its work in June of this year with a draft report, so we are moving forward to examine that very issue.

Mr. KENNEDY. This is something of particular interest because only about one-third of all of the U.S. Government civilian employees assigned in our embassies and consulates abroad are actually from the State Department, the other two-thirds are from other agencies. And so this is a crosscutting look at the U.S. Government's presence overseas, not just State Department.

Mr. TIERNEY. Is State picking up the cost of security and maintenance for those individuals?

Mr. KENNEDY. We pick up a significant portion, and that is why we are interested in having the panel look at our presence overseas and how additional cost-sharing methods might be appropriate.

Mr. TIERNEY. Thank you. Mr. Soloway, in your written testimony you had noted a number of acquisition programs in which cost and turnover time had been reduced. Can you speak to the cost of the F-22 program for me in that regard?

Mr. SOLOWAY. I don't mean to be evasive, but if you have specific questions about the program, I can take them for the record and I would be happy to get back to you. I don't have the details on the F-22 program with me.

Mr. TIERNEY. I would like for you to get back with the amount of overrun and costs, and is it going beyond its original projected return dates.

[The information referred to follows:]

Throughout the Engineering Manufacturing and Development (EMD) phase, the F-22 program has experienced a number of funding instabilities and technological challenges that contributed to cost growth in the F-22 program. To address the issue of cost growth, section 217 of the National Defense Authorization Act for Fiscal Year (FY) 1998 imposed cost caps in both EMD and production. Section 217 also requires the Secretary of the Air Force to adjust those limitations to account for increases or decreases in economic inflation or changes in law after September 30, 1997. Pursuant to the adjustment requirement, the cost caps are currently at \$18.88B for EMD and \$39.77B for production.

In the later part of FY 1998, the Air Force identified approximately \$660M of potential cost growth in EMD that had to be mitigated. This potential cost growth was also reported by the GAO in its recent report entitled, "F-22 Aircraft--Issues in Achieving Engineering and Manufacturing Development Goals." The current Air Force plan includes a combination of development cost-reduction initiatives, scrubbing remaining development costs, application of existing management reserves, and deferral of external combat configuration certification to keep development costs under the cap. The Air Force is also actively working to minimize production costs. The contractors are seeking to reduce approximately \$16B of production costs by employing cost reduction initiatives. Lean thinking and lean production methods are being applied everywhere possible.

Cost control continues to be a primary emphasis with the F-22. We have initiated comprehensive measures to track and control F-22 program costs and are regularly monitoring the Air Force's cost reduction efforts to ensure their success.

The F-22 program schedule has not changed since the program was re-baselined in 1997.

The Air Force and its contractors are committed to the delivery of the aircraft within the caps and on schedule. However, funding stability is essential for program stability to ensure the aircraft enters operational service in December 2005, as scheduled.

Mr. SHAYS. Let me just say as a policy that the staff will make sure that the requests—you can give it to the committee and you can CC the Member, but we want to make sure that information does come in. And so if you make sure that the committee gets it and we will make sure you get it, but we are not going to ask frivolously for information and then forget to see that we get it. We will followup.

Mr. TIERNEY. My last question, Mr. Soloway, is in regards to your weapons acquisition process in general. There are comments from the Inspector General that there were concerns there that there were premature commitments made to a number of technologies, moneys being applied before the technology was really ready at that point.

Have you looked, has your Department looked at the national missile defense proposals to determine that in fact the latest request from the Department of Defense isn't doing just that with respect to putting money where technology is prematurely stated?

Mr. SOLOWAY. Specifically with regard to NMD, I think the Department is continually evaluating whether or not the money is being well spent, whether or not the technology is capable of achieving the performance requirement set forth, and that is an ongoing process. It is a continual discussion within the leadership of the Department, both military and civilian.

In the broader sense of the term, taking it out of the missile defense area, the question of technology maturity and when we make buy decisions or no-buy decisions is something that we have looked at very extensively, because what we have found historically is that we have sometimes set a technology requirement way out here and then spent 40 or 50 percent of the money trying to get the last 10 or 15 percent of the way, rather than having a more flexible technology requirement, accessing technologies that were more immediate and being able to field systems more quickly and more quickly efficiently. That is an ongoing process in terms of reducing cycle times and focusing on the technology availability question. But with regard to missile defense, that is something that is an ongoing discussion in the Department and it is continually evaluated.

Mr. TIERNEY. Are you saying that the Inspector General's concern is not well placed because the real problem is setting the goals too far out?

Mr. SOLOWAY. If we are not talking about the missile defense question specifically, but more broadly about how we make acquisition decisions, I think a criticism would be to say that sometimes we have established requirements that are simply unreachable in an appropriate or reasonable amount of time.

And what we have going now, for instance, we have a team right now that is a rather unique relationship between the Joint Staff and the acquisition side, the civilian and military side, co-chaired by my boss, Dr. Gansler, who is the Under Secretary for Acquisition and Technology, and General Ralston, that is looking specifically at the impact of the requirements process on acquisition and how we can have a more flexible, iterative process, so we don't have this historic sort of over-the-transom, this is what we need, and the acquisition technology folks try to figure out how to go get it and it takes 15–20 years.

We have been very open about the fact that it takes us 15–18 years to field a system not only drives cost, but it means that we often end up with systems that are not in fact reflective of contemporary technology, that technology passes us by because we have made those decisions way early. By making the system more iterative, more reflective of what is really out there in the technology world, we believe that we can substantially reduce cycle time and reduce costs, also field systems with better technologies quicker. I think that is a fair criticism of our history.

Mr. TIERNEY. Thank you.

Mr. SHAYS. All of you I think can speak to information systems and facilities, and I will be asking you questions about both. And all of you in one way or the other have acquisitions, but obviously DOD has more significant purchases.

The first question I want to ask relates to facilities—500-plus bases, give or take, owned by the DOD. When we look at base closure I want to go two stages, Mr. Soloway. What number do we hope to get those bases down to?

Let me just tell you that I am going to be asking the other Members on the same issue. I am interested to know about your facilities, how many facilities you actually have, and then I want to have you speak to whether you've done assessments as to whether all of those facilities are needed or not. Mr. Soloway.

Mr. SOLOWAY. The additional BRAC rounds that we are requesting, we do not have a specific number of facilities because that will be determined by the commission itself. I can tell you what our projections are in terms of savings and what we think that we will gain, if that is what you are looking for, or I can give you some history.

Mr. SHAYS. Why don't you start that way. But that raises another question. Let's start. I'm sorry.

Mr. SOLOWAY. Well, the request for two additional rounds of BRAC which would be a fiscal year 2001 and 2005 request, we expect the savings to approach about \$23 billion beginning fiscal year 2008 through 2015.

Mr. SHAYS. Is that an annual expenditure savings?

Mr. SOLOWAY. No, that would be a cumulative savings between fiscal year 2008 and 2015 for approximately \$23 billion, with a steady state of savings of about \$3.6 billion a year after that.

Mr. SHAYS. That is your goal, and then you decide to see how many bases you have to close to meet that goal?

Mr. SOLOWAY. We don't decide how many bases to close. That is a determination by the Base Realignment and Closure Commission.

Mr. SHAYS. I understand that. I am not looking to strain at gnats and swallow camels here, but it does beg the question. If you know what you are going to save, how are you going to know what you are going to save if you don't know what you are going to close? Do you basically say this is your goal and then you tell BRAC, and then they have to decide what they have to do to reach that goal?

Mr. SOLOWAY. The savings that we have identified are based on two previous rounds. We are asking for two more rounds, so it would be a similar scale.

Mr. SHAYS. How many bases did we close in the last two rounds?

Mr. SOLOWAY. We have closed, total, we have closed 97 major bases and we have realigned 55, and we have had 235 smaller bases either closed or realigned.

Mr. SHAYS. How many bases did we open up?

Mr. SOLOWAY. I am not aware that we have opened up any, but I can check on that. That is the cumulative total. What we have looked at in establishing the savings estimate were the average cost savings that were contained in the President's budget for fiscal year 2000 based on the BRAC rounds in 1993 and 1995.

Mr. SHAYS. What I wrestle with is, the cold war is over but the world is a more dangerous place in the sense that in the past we were able to have a deterrent. So obviously we had a nuclear threat that seemed more frightening on a scale, but now we have the potential of a nuclear attack by a rogue nation or individuals, and we have a tremendous number of hot spots around the world. And so in some cases, a number of our soldiers and sailors and Marines—the Marines always tell me I cannot call them soldiers—

Mr. SOLOWAY. You forgot the airmen.

Mr. SHAYS. And the airmen. Thank you. I have not met with them yet for them to tell me that. So they are being spread out to more hot spots and so on. But we are also manning a number of bases, and I wonder if that is not to our detriment. So, obviously, I am sympathetic to the need to begin to consolidate. I know we have to weigh—not concentrate too much, of our forces like we did in Pearl Harbor and then regret it later on when it was such a tempting target.

But what I am hearing from you then, and then you can qualify the response, I am hearing that you have a sense of what you are going to save and yet we do not know the number of facilities we would close.

Can I infer in this that there is not a document in DOD where the generals and admirals and so on have gotten together and said, Listen, in our world, if we did it without BRAC, this is what we would do?

Mr. SOLOWAY. I can't tell you for a fact. I don't have operational responsibility for base closure. But what I would be happy to do is take that for the record and find that out for you.

Mr. SHAYS. I am not going to ask you to do that. We will get that from other sources.

Mr. SOLOWAY. Let me, if I could comment on your other statement in terms of the threats we face. I think that if you look at the strategic documents that have come out of the Department, not just the Quadrennial Defense Review but the Joint Vision 2010, which is the Joint Chiefs' of Staff view of the future defense requirement and the threats we face, I think we are very, very aware of the increasing nature of the threat that we face, but it is a very different threat. And what we are really trying to do and what Joint Vision 2010—which came out of the Joint Chiefs—talks about and Secretary Cohen talks about, the Revolution in Military Affairs, is really right-size, and reorient ourselves so that we are optimally prepared to deal with that new type and new form of threat.

It is not, for instance, a single, large conflict that we look at it. Is multiple, concurrent conflicts. As you mentioned, we are concerned about the threat posed by rogue nations and terrorist

groups and so forth. We are also concerned about nuclear, chemical, and biological warfare. As I mentioned in my testimony, the whole concept of homeland security and how we protect the Nation from those kinds of threats is something that we are very focused on.

So I don't believe that it would be appropriate to characterize the BRAC process, and I am not suggesting you have, but the interpretation could be that we are doing this without regard to the changing threat but just as a money-saving venture. This is actually partially about right-sizing and identifying resources we can save, but it is also about reorienting the Department to more efficiently meet the war-fighting need or the more war-fighting mission that we have, and that is something that we will be very focused on and very concerned about.

Mr. SHAYS. I concur in that. And I would just say to you that I was trying to acknowledge the fact that it may be destructive for our military to have so many bases and spread our manpower resources so thinly and our financial resources, trying to keep all these bases open. But if you cannot give me a sense of the number of bases, you have given me a number of what you try to save. What would be the percent of the current or projected operational maintenance money that you would save through these two BRAC closings? You have given me the amount. Is it going to be a 1 percent, 2 percent overall savings?

Mr. SOLOWAY. I would have to go back and pull the budget figures again. I haven't looked at it from that perspective, sir, to be honest with you.

[The information referred to follows:]

Operations and Maintenance savings represent approximately 52% of the total savings generated in the previous two BRAC rounds, based upon the FY 2000 budget data. One could make the case that this is an indication of future BRAC results. However, only a detailed BRAC analysis can determine this data.

**Source: "Executive Summary & Budget Justification, FY2000/2001 Biennial
Budget Estimates"
(Dollars Millions)**

BRAC 1988 Savings Contributions (1990-1995)				
Category	ARMY	NAVY	AIR FORCE	TOTAL
Military Construction	102.0	46.5	202.8	351.3
Family Housing - Construction			62.5	62.5
Family Housing - Operations	135.4		51.5	186.9
Operations and Maintenance	241.9	151.5	446.9	840.3
Military Personnel	241.7	19.8	646.0	907.5
Other			3.4	3.4

BRAC 1991 Savings Contributions (1992-1997)				
Category	ARMY	NAVY	AIR FORCE	TOTAL
Military Construction		37.5	212.6	250.2
Family Housing - Construction		51.1		51.1
Family Housing - Operations	2.1	26.3	190.6	219.0
Operations and Maintenance	1,179.1	1,007.9	595.9	2,782.9
Military Personnel		427.2	1,958.6	2,385.8
Other		764.8		764.8

BRAC 1993 Savings Contributions (1994-1999)						
Category	ARMY	NAVY	AIR FORCE	DLA	DISA	TOTAL
Military Construction	12.8	216.7	89.0	8.0		326.5
Family Housing - Construction		56.1				56.1
Family Housing - Operations	(4.5)	152.3		0.1		147.9
Operations and Maintenance	195.0	2,451.4	405.8	517.8	1,309.2	4,879.2
Military Personnel		946.9	608.4	2.6	75.0	1,632.8
Other	3.6	731.7				735.4

BRAC 1995 Savings Contributions (1996-2001)					
Category	ARMY	NAVY	AIR FORCE	DLA	TOTAL
Military Construction		24.3		12.5	36.8
Family Housing - Construction			7.2		7.2
Family Housing - Operations	52.0	75.6		0.6	128.2
Operations and Maintenance	957.3	376.4	581.2	532.5	2,447.4
Military Personnel		200.0	99.9	3.0	302.9
Other		3,097.8			3,097.8

NOTE: The Executive Summary was coordinated on by all Service Comptrollers and forwarded to Congressional members in February 1999.

DoD Base Realignment and Closure

**Executive Summary & Budget Justification
FY 2000/2001 Biennial Budget Estimates**



Justification Data Submitted to Congress

February 1999

Mr. SHAYS. I would ask you to do that. In other words, our committee has to decide whether we want to dip our toe in this issue of base closures, because it is so controversial and would require us to utilize some resources. One opportunity is for our committee to begin to look at what the requirements are and try to put a number on it. In an ideal world, what we should be doing is closing to meet all the threats that we face. I just do not know if we want to get into it.

Mr. SOLOWAY. I would be happy to get that for you. But I will reiterate again, I think the key point that there is nothing we can do in terms of change and reform that will more directly affect, both from a financial and an operational standpoint, our ability to meet those threats than to pursue additional rounds of base closure.

Mr. SHAYS. I know the Secretary is very determined that we proceed. And I think Congress is a little reluctant, but I do know that we need to proceed.

As it relates to the veterans' affairs, when you say 500 bases, is it 500 major bases? For instance, when we went out to Seattle a few weeks ago, it is basically a weather station that is under the command of the admiral in the Center, but do I consider that one of your bases?

Mr. SOLOWAY. We have closed 97 major bases.

Mr. SHAYS. In your statement you had 500.

Mr. SOLOWAY. I don't believe so. Maybe Nelson did.

Mr. TOYE. That's 500 installations. And an installation could be a major installation, but not necessarily.

Mr. SHAYS. Thank you. That would not necessarily be, when you go to Idaho for the pilots, that is not necessarily a base. It is owned by the government, but would you consider that a base, or an installation?

Mr. TOYE. The 500 number includes DOD-owned and operated installations. And some of those installations may have at one point in time been a major installation and in the current environment may no longer be a major installation.

Mr. SHAYS. Could it also be a bombing practice range?

Mr. TOYE. It could be, yes.

Mr. SHAYS. Thank you very much.

How many facilities does the VA have?

Mr. POWELL. We have 172 hospitals and approximately 400 of the outpatient clinics, with 89 more opening this year. We don't own those facilities, Mr. Congressman, we lease those.

Mr. SHAYS. You said 400 outpatient clinics?

Mr. POWELL. Right. Those are leased, however.

Mr. SHAYS. I am delighted the VA has those outpatient clinics. But Mr. Tierney has made reference to what we heard from the Inspector Generals at the GAO last week, and one of the points was that the 172 hospitals are really providing service in a facility that is not designed for the needs of today's health care. You had representatives here. I am sure that is an issue you all discussed. What was your reaction to that?

Mr. POWELL. Actually, if I could revisit Congressman Tierney's question just a bit, we are seeking new legislation this year for the authority to dispose of excess property. Our capital asset disposal

plan as an agenda item will allow us to retain most of the revenue from the disposition of these properties, which we could then apply for other internal uses. This allows us to manage these decisions much more effectively at the local level where decisions regarding which properties to use versus renovate, et cetera, is made at the local level and comes up through the chain that way. We feel that is an appropriate way to deal with that.

We continue to make significant improvements in our capital investment process, which requires much better documentation than we have ever had before, and allows for us to conduct a much more critical assessment of any new proposal capital investment. We have a much more formal process now of identifying where we spend our capital dollars, particularly with regards to facilities.

Mr. SHAYS. The legislation that you are bringing forward, is it going to allow for the VA to use the sale of an asset for operating expenditures or for another asset? I am happy to have anyone answer the question.

Mr. POWELL. It is generally for operating and nonrecurring costs. And 10 percent of the proceeds, as I understand it, would be set aside for homeless programs.

Mr. SHAYS. I just wonder, the wisdom of taking a capital asset and then transferring it into an operating cost. Is that what you are basically saying?

Mr. POWELL. Yes, sir.

Mr. SHAYS. Again, the reason why we are asking this question in a general way, we are not going to nail down all the answers. It is just to begin to see if Mr. Tierney and I and others want to get into this whole issue. And it is a big issue because I know the service groups and veterans like their facilities, and we like the veterans.

But the question is: Is there a better way to provide them health care? And we need to be willing to ask that question. And one of the questions we may ask ourselves to undertake is a very thorough study of really how well does the VA—with the infrastructure it has had for decades and decades and decades and decades, does it meet the need of today's veterans?

Is there any study that the VA has undertaken, or has the VA had any dialog that is trying to reappraise the facilities that we have and to see if some of them should be sold and some of them should be converted and so on? Is this anything that the VA is beginning to undertake?

Mr. POWELL. That issue has not come to the Secretarial level yet. One consideration is to convert from our high-maintenance fixed assets to leased facilities. This would reduce ongoing operating costs, which is really the objective. The combination of these locally-based decisions and the allocation of resources through the VERA model, encourages local officials to pay more attention to how their facilities are utilized for and how to best serve their client's needs, in this case the veteran.

Mr. SHAYS. Do we have any statistics to say how many veterans are alive today from World War II versus, say, 10 years ago or 20 years ago?

Mr. POWELL. I'm sure that we do, sir. I'll have to get that specific number for you. I don't have it with me.

[NOTE.—The information requested was not provided at the time of print.]

Mr. SHAYS. I am just curious to know what that peak period was. I realize that we had a larger group, but they were healthier. Now we may have a smaller group, but they are not as well. So I realize these are all factors. But I would like to see that. So that would be a request that I am making.

As it relates to the State Department, how many facilities?

Mr. KENNEDY. Mr. Chairman, the State Department has about 265 embassies, consulates, and missions overseas, plus another two dozen or so, consular agencies, which are small one-person facilities staffed by a locally hired American, mainly in major tourist centers, who are the first line of intervention if an American is injured or in jail, such as in tourist resort areas in Mexico for example.

We also have some 30 facilities throughout the United States, including passport agencies in Connecticut and Massachusetts, diplomatic security field offices and three major regional centers: One in Fort Lauderdale, FL, which provides support throughout Central Latin America and the Caribbean; a major finance center and new passport production facility in Charleston, SC; and a major passport and immigrant visa processing facility in Portsmouth, NH.

Those latter two, if I might, are products actually to our benefit of the Base Closing and Realignment Commission, because as DOD closed the former Pease Air Force Base in New Hampshire and the Charleston Naval Station, the State Department, looking for ways to economize, streamline, and create efficiencies in economies of scale, picked up, with Congress assistance, facilities in those two locations.

Mr. SHAYS. Let me ask you this: The 265 of the embassies primarily, are they also the residences of the Ambassadors?

Mr. KENNEDY. No, sir. I said there are 265 cities in which the United States has diplomatic and consular representations. If you added in the other leased facilities, the number comes up, Mr. Chairman, to 12,000. When you add in the embassies, annexes, consular operations, warehouses, and the residences of U.S. Government personnel overseas, it could come to as much as 12,000.

Mr. SHAYS. Are all the residences leased?

Mr. KENNEDY. Some are owned, Mr. Chairman. Some are leased. We own about 2,000 properties and lease another 10,000.

Mr. SHAYS. You cannot go to 10,000?

Mr. KENNEDY. 2,000 owned, 10,000 leased, for a total of 12,000 properties.

Mr. SHAYS. I am making an assumption that is 12,000 separate locations. One of the things I was thinking of doing is having my staff go and see all these facilities.

Mr. KENNEDY. Mr. Chairman, seriously, we always welcome congressional staff visits.

Mr. SHAYS. Seriously, you try to say that and try to feel that way, but I do not know if you always welcome us. You would be crazy if you did.

Mr. EDWARDS. Many of those 12,000, of course, would be individual apartments and homes in which State Department as well as other U.S. Government employees at the embassies are living. So

it sounds like an enormous number but most of those would be individual residents' units.

Mr. SHAYS. It is just so that technically we are responsible for the safety of the people in those facilities. When we went to Colombia—and this was after they lost the 700, their DAS building was destroyed about 8 to 10 years ago. It was their FBI building. They lost 700 people and 70 were killed. And we went down there—a delegation from Congress, to visit with some of the Colombians, who are truly fighting a drug war. I mean, for them it is not theory. But when we saw, for instance, the Ambassador's home—it was a lovely home and it was kind of in a valley, there were probably 80 structures above it so that any sniper could just knock off whomever they wanted. So I could say, that is just one little home. I mean, obviously it is a home, but it is a facility that many people use. So that is why I was thinking of that.

Let me go back to Mr. Tierney, and then I am going to talk about information systems when we get back.

Mr. TIERNEY. I only have one other question.

Mr. Powell, I do not mean to beat a dead horse and I hope I am not on an area that you do not have any information on, but I am sort of fascinated by the prospect of properties, VA hospitals and the like, that if they are too expensive for us to maintain or if they are not serving the purpose of providing medical care in today's environment, has there been any process or consideration to dealing with the surrounding communities where they are located and some public-private partnership type of thing of trying to create long-term care facilities or assisted-living facilities, all of which there is a considerable need for, that would help with the financial end of things and serve our needs with another 1.3 million veterans who are going to be over the age of 85 over the next 10 years, and help the surrounding areas with their similar demographic problems?

Mr. POWELL. Yes, sir. We have a number of projects that we are looking at under the category of "enhanced use." We are looking at partnerships with, for example, State veterans organizations where we can allow facilities that we aren't currently using to be converted for long-term care, or other programs that may be run by the State veterans groups. We have a number of those projects that are in the process of being identified. Hopefully, they will be approved for that type of conversion.

Mr. TIERNEY. And do you go beyond that, too, to look into some private partnerships with people that might come in and renovate an entire thing and then lease back at a favorable rate for our veterans' use?

Mr. POWELL. Yes, there are a number of those that we look at from time to time. Again, most of that is driven from the local level and it is something that we encourage.

Mr. TIERNEY. Thank you.

Is there anything that any one of you feels compelled that you should share with us that we have not asked you?

Mr. KENNEDY. Mr. Tierney, if I could add something on the property issues. The State Department does have the authority to sell its properties overseas and to retain the proceeds of sale and to

turn those proceeds toward new properties. And this is a stewardship we take very, very seriously.

For example, last year we sold over \$58 million worth of property and purchased another \$58 million worth of property. We try to identify properties which are obsolete or not serving their highest value and then take those assets and sell them, avoiding several million dollars of lease cost every year. But obviously those lease costs repeat and mount every year, so the savings become significant.

Another example would be in Singapore several years ago, we actually sold the United States Embassy, which is a very old, small building, but on a very, very valuable downtown lot, and took those proceeds and were able to build an entirely new embassy, Ambassador's residence, Marine guard quarters, without having to request a single dollar in appropriated funds, because we were taking an asset and converting that asset to its highest and best use. And this is something we do very, very rigorously.

Our Office of Foreign Buildings examines properties overseas. We even availed ourselves of what we call the Real Estate Advisory Board to help with this process. And that membership, to make sure we draw on real estate professionals from the intelligence community, the General Services Administration, and the U.S. Postal Service, so that we can look at properties and decide the best way to convert a fixed asset to its highest and best use so we do not have to come back to the Congress for additional appropriations.

Mr. TIERNEY. That is interesting. I am glad you shared that with us.

I assume there is not the same kind of authority with the Veterans Administration. I assume that you do not have that same authority to be able to sell and buy properties without coming back to us for approval on that. But do you have advisory groups that help you deal with your real estate issues?

Mr. POWELL. No, sir, we don't. That is one of the issues in our enhanced use proposal we would like you to look at.

Mr. TIERNEY [presiding]. Let me ask you a question for the absent Mr. Shays.

The GAO testimony last week indicated that the Results Act Performance Goals and Measures should provide us and you with clear indicators of progress and problems. The VA testimony today indicates that the Department has made significant progress in identifying performance targets and collecting valid data to measure progress. VA has focused on a small number of goals and performance measures VA leaders identified as critical to the success of the Department.

Would each of you please identify the three performance measures in your fiscal year 1999 plan that you see as critical to your Department's success?

I will give you time to prepare if you want. But State is ready to go?

Mr. EDWARDS. We have had some very interesting challenges on GPRA, because in many cases our programs are designed to have things not happen versus supposed to happen. But certainly in our accountability report we have some very solid data on issuance of

passports, issuance of visas, which of course is a service to Americans and to people who are coming here to visit or to emigrate. So we have those data. And it is clear that we're delivering an increasing number of passports and visas with a decreasing number of personnel. And we are using some very high technology to minimize fraud.

At our new plant, I guess not too far from your district, Mr. Tierney, in Portsmouth, NH, we have a new passport system where your photograph is actually part of the printed material. It is not an embedded photograph. And there are about four different vendors involved in producing that passport. So the chance of fraudulent passports, once we get that system in throughout the Nation, is very, very much diminished. So we can measure our effectiveness there.

We can measure land mine removal. But the problem is we don't know how many land mines there are. There are still land mines from World War I, believe it or not.

And we are faced in Central America with the Hurricane Mitch aftermath of land mines floating down mud rivers, and people putting their hands in the mud and the mine going off, because these mines were in fields and roads which were devastated. That hurricane, as you may recall, is probably the most severe hurricane in the Western Hemisphere since Europeans have been here.

So we have some very, very difficult tasks and we're struggling to be able to measure each of our 16 objectives and 3 diplomatic readiness objectives, and we have a way to go. But we are committed, as a service agency, to find a way to measure that to show that there is payoff for the dollars that we're spending.

Mr. TIERNEY. Thank you.

Mr. SOLOWAY. Congressman, as I mentioned in my testimony, we have two overall corporate goals, if you will. The first one really focuses on force structure and strategic issues. The second one is more directly related to what you are interested in, which is the reengineering and performance management within the Department.

Let me just mention a few of the performance measures that we have established that we are tracking and that would obviously be included in our GPRA reporting: Our annual procurement spending, which is investment in new systems; the percentage of the DOD budget that is spent on infrastructure, which of course we are trying to reduce; public-private competitions, which is that number of positions that we are able to effectively compete and thereby achieve efficiencies whether the work is done, one, by in-house government workers or by contractor; and where we are going in terms of cost growth and cycle times with our major defense acquisition programs.

If there were some key ones, those would be the ones that I think are really the highest on the list. As I mentioned, I think there are about 41 that we've established.

Mr. TIERNEY. We will not ask you to go through all those, but thank you.

Mr. POWELL. The VA performance plan, that was submitted with the budget on February 1st, lists slightly over 100 different out-

comes that we are looking at, with 24 that the Department considers as key.

I happen to be very interested in three that really measure outcomes, and deal with the quality of what we deliver.

One is the accuracy of the processing of VBA claims. The other two relate to health care, which are issues that are also very important to Dr. Kizer. The first of these is the Chronic Care Index, which really consists of 14 medical aspects and gets to the issue of quality of patient care. The other issue would be the Prevention Index, which consists of nine medical interventions measuring how well the VA follows nationally recognized primary prevention and early detection. Both of those go to the essence of serving the needs of our community.

Mr. TIERNEY. What progress are you having on the claims issue? I know that I can report, hopefully, that I am hearing less in this last year than I heard several years ago on that. What has the Department done to try to address the backlog in the claims?

Mr. POWELL. Again, this is a little out of my purview as CFO. We do have the balanced score card that Under Secretary Joe Thompson has been talking about, and there are now published, on a web site, monthly updates on performance. I know too that the Veterans Benefits Administration has a number of initiatives underway to try to reduce the backlog but I'm not familiar enough with those to give you an answer. I can get that answer back to you.

Mr. TIERNEY. No. I can go to another source. Thank you.

Mr. SHAYS [presiding]. As it relates to information systems, all three of you have your challenges, obviously, in this area even if we did not have the Y2K problem. But let me first ask as to it relates to the Y2K problem. I want you to give me what would be the worst-case scenario from each of your stand-points on what could happen if we did not address this issue properly, and then I make assumptions that you try to take the worst case first to deal with that.

But, for instance, let me just go backward and start in reverse order and start with State. What could be the worst inconvenience or the worst challenge that could happen if we are not getting a handle on the Y2K problem for State?

Mr. EDWARDS. Well, there is no question, since we are a very labor-intensive organization, the inability to pay our people both domestically and to pay not only our people, but Americans and SFNs overseas. So we've remediated all four, our three overseas and our domestic payroll system, and we've also remediated our retirement system.

As I indicated in my comments, we have 13,000 retirees that we pay at State that aren't in an OPM-administered plan. Not only would it be devastating to us but you'd hear about it almost immediately if we failed to pay them.

Mr. SHAYS. One of the problems could be, they did not get paid at all or they got paid an amount that was not commensurate; they could have received a \$10,000 check when they deserved a \$2,000 check, these kind of scenarios. They might be disappointed if you solved the problem.

Mr. EDWARDS. Not getting any check at all, Mr. Chairman, would probably be the problem of processing.

Mr. SHAYS. I am being serious here. Is the problem that they would not get any check if you did not solve it, or they might get an inaccurate amount?

Mr. EDWARDS. If the system crashed, you would not get the output—which would be principally not checks but electronic transfers into their bank accounts. We pay almost everybody, even overseas, electronically.

Mr. SHAYS. I am going to ask others. But what I am trying to understand is, do we even know? Is the issue that it would be inaccurate, or it is just that they would get nothing, or don't you know?

Mr. EDWARDS. Well, in the Y2K bugs that we had, it would be very difficult right now to know, since we've remediated the systems and they are essentially compliant, what would happen. But normally when you have a meltdown of a system, the output stops, so that means you wouldn't get the electronic transfers.

Mr. KENNEDY. On the substantive side, Mr. Chairman, in addition to our administrative process, the State Department provides a number of services to the public such as passport services, and visa services to foreigners, which is why we put the remediation, the Y2K compliance issues of those systems, at the head of our list, and why they have been remediated.

I'll give you one example. We maintain a data base of criminals and terrorists who, when they apply for a visa at a U.S. facility abroad, that visa is denied. But that is a large data base that we work on jointly with the Immigration and Naturalization Service and other law enforcement officials.

So we have taken great steps to make sure that when somebody comes in, applies for a visa, and we run their name against our name check system in a highly, as I said, computerized and automated process, we want the right answer to come up, either a record or clean.

So that is an example of something we take very seriously, because we do not want to admit any criminal or terrorist elements into the United States because our computer process has somehow been flawed by the Y2K bug. And that system is remediated, and we are in the process of installing the modern hardware around the world. The only reason it is not fully certified is not because the hardware and software hasn't been approved, but it's just that we are in the process of literally putting the new terminals at all of our 260 locations. This will be complete by July of this year. But the system is tested and in place at a number of posts.

Mr. SHAYS. Right.

You still have Wang word processors in some State Department facilities?

Mr. KENNEDY. That is a system that will be completely phased out by July of this year.

Mr. SHAYS. One of the things that I have heard from people who work in our embassies, from the Ambassadors on down, is that we have not yet developed a system for them to communicate through e-mail quickly from State to overseas; that they cannot communicate quickly from one embassy to another.

Is there a plan in place to begin to totally—and would you say is it just a plan or is it a possibility that it is done?

Mr. KENNEDY. We have begun already implementing that. And we will have one system in place that is commercially based, robust, Y2K compliant, completely installed around the world by July of this year.

Mr. SHAYS. That will allow an ambassador in France to talk to the Ambassadors in England?

Mr. KENNEDY. Yes, sir. But there is a complication there, and that is a complication that most other agencies do not have, and that is level of security required.

The State Department essentially maintains three separate systems and that is because no one, including the National Security Agency, has been able to certify a firewall that would allow us to combine national security, classified information, and what we call sensitive but unclassified information. An example of that would be the anti-terrorism data base we maintain, and then the internet. So we have deployed three enclaves to deal with these problems. And our Chief Information Officer and his colleagues are in constant communication with DOD and the National Security Agency, looking for that magic firewall that would allow us to merge all three systems together, on one terminal, on the Ambassador's desk.

But, yes, if the Ambassador wishes an unclassified terminal on his desk and wants to work in that world, we will have that in July. The classified systems are taking a little bit longer because of the complexity of ensuring that we never expose national security information to those who should not be privy to it.

Mr. SHAYS. Thank you.

Defense, it seems to me if we just talk about the computers in the airplanes, the computers in the air traffic control, there are a hundred different ways that you all must have to focus your time and energy on. But in different areas, what would be the worst-case scenario if we do not succeed? I realize we are making progress.

Mr. SOLOWAY. I think, Congressman, the question of progress is key here, because certainly Defense is one of those agencies that was viewed with great concern both by ourselves and by the Congress and others looking at it as recently as this past fall, where we had a number of mission-critical systems that had not yet passed muster, and there was great concern as to whether or not we were going to be able to overcome the problem.

I think what is important to note is that now, today, about 83 percent of our systems have not only been fixed but tested. We will be at 90 percent in the March-April timeframe and 100 percent by October. So we have made, I think, dramatic progress.

In fact, Deputy Secretary Hamre, who is testifying right downstairs this morning on Y2K, made the comment yesterday that he himself, as I think he testified before Congress earlier this year, had been deeply concerned about whether or not we are going to be able to overcome the problems associated with the Y2K bug, but now has tremendous optimism that we will be able to get there.

Really where our focus is now, in addition to continuing our attention to that last 17 percent, which is not unimportant, but really a lot of our attention now is focused on working with our NATO

partners and also with Russia on the early warning systems and so forth, because, as has been reported in the media, there has not been perhaps as much aggressive addressing of these issues overseas as here. And so that is, in addition to our focus on our own problems, a much increased level of activity, if you will, with regard to overseas allies to ensure that we don't have any problems in that regard.

I don't have, nor does Mr. Toye, operational responsibility for information systems. That is under the purview of our CIO. Dr. Hamre has personally directed the Y2K efforts in the Department. So I can't give you specifics in terms of a worst-case scenario. But I can tell you I think from a progress standpoint, we are substantially ahead of not only where we were, but where we thought we would even be by now, or well on track, and much of our attention now has been focused overseas.

Mr. SHAYS. Some of the systems are basically run by DOD. But a system, for instance, in a fighter jet would be the manufacturer's challenge, not your challenge?

Mr. SOLOWAY. It is a common challenge. It is a joint challenge, sir.

Mr. SHAYS. I realize that. But let me just try to understand who has that responsibility, rather than year 2000 no one having it. Is it the manufacturer's responsibility?

Mr. SOLOWAY. That's a very good question. Specifically, from a legal standpoint, I don't know the answer to that. I do know that we have been working with our suppliers to ensure that systems are updated and are capable of overcoming the Y2K problem in those cases where they face it. And as we look at—certainly with mission-critical systems, our guidance systems and targeting systems and so forth clearly would fall into that category.

I don't know from a legal standpoint who has those responsibilities. I know that we are certainly requiring that anything new that we purchase clearly would be compliant when we purchase it. But in terms of actual legal responsibility for legacy systems from a legal standpoint, I would have to hesitate to answer and would probably take that for the record and get back to you.

[NOTE.—The information requested was not provided at the time of print.]

Mr. SHAYS. Mr. Horn, his subcommittee, is doing an extraordinary job and, as you point out, have created each of the departments and we have really deferred to them. The one area where they have not gotten as much involved is areas where there is—particularly with the intelligence community, because of the nature of the information, but it impacts DOD. I know they have been focusing on DOD—and I am happy that he has done this and it is not on our shoulders. His Government Management, Information, and Technology Subcommittee is focusing on that.

I just want to get a handle as to whether we are leaving anything out as it relates to DOD. As I think of all the number of areas that you have to focus in on, did you have a method in which you went through each area to know if you were able to comply or not? In other words, what is the structure in which you begin to even know if you have a handle on this?

Mr. SOLOWAY. The Deputy Secretary, Dr. Hamre, took personal charge of this at the Secretary's request, and he conducts monthly meetings of the Y2K Steering Committee that involves the very senior leadership for covering the entire Defense Community, going through from a community-by-community perspective, if you will, the systems that they have in place, the challenges that they face, the progress that they are making, and so forth. So it has been managed at the very most senior levels at the Department.

You are correct, of course, we have systems that cut across many areas. We have 500 that support the intelligence community. But internally it has been managed as a very senior level effort to make certain that it is very clear in the field that this is an absolute top priority and to make certain that the leadership has its arms around the full scope of the problem.

We have looked at our Defense Finance and Accounting System, the intelligence, the readiness issues, and all of those things as they relate to one another and each individual system. It has been organized at the most senior levels of the Department.

Of course, our money—our senior civilian official, and our Chief Information Officer, Mark Langston, have had direct responsibility. But it has been managed and overseen personally, as I said, by Dr. Hamre, who is downstairs testifying again on the topic.

Mr. SHAYS. Before I recognize Mr. Mica, let me just ask each of you, what is the key information system challenge that you have that is not related to Y2K? And Defense could probably give me two. But put your heads together. What is the key information challenge that you are faced with? Actually, let me ask each of you. I think it would be easier that way. The two key issues.

Mr. KENNEDY. Mr. Chairman, I think that of the two major challenges to the State Department, the first is obtaining qualified information technology professionals in sufficient numbers that can do both the domestic jobs and deploy to our many overseas locations to provide the national security services we provide.

I believe the second challenge that we have is to stitch together both all our locations and all our systems across 24 time zones around the world, including operating in countries that have the highest degree of information technology capability, just as in the United States, down to the Third and Fourth World, operating across all systems, across all levels of technological competence overseas and around the globe, which is our second major challenge.

Mr. SHAYS. It is very difficult for government, given the pay level sometimes, to bring in the quality of competence that we need. But even in industry in the area that I represent, we have 1,900 information system type jobs available, unfilled, because we do not have the people to fill them. And that is the private sector competing with price. And you have limits that way, correct?

Mr. KENNEDY. We have limits. And we just had a big job fair last weekend, and we did get a rather large and qualified turnout because we were emphasizing the ability to serve and work for the U.S. Government overseas. So the salary levels worked against us, but we do have potential inducement of talking about offering people an opportunity to serve their country abroad.

Mr. SHAYS. And you also have the ability to hire some people with high skills overseas, I would assume.

Mr. KENNEDY. Yes.

Mr. SHAYS. But in this country, hiring Americans, from the moment that person comes to that job fair—what is the earliest that you could, even if you knew then that you wanted them?

Mr. EDWARDS. We made 50 offers Saturday, and we started the background investigations yesterday.

Mr. SHAYS. So how long would it take you to get them?

Mr. KENNEDY. We would say probably 90 days, sir, because of the need to conduct the rigorous national security background investigation pursuant to statute and Executive order.

Mr. SHAYS. It is interesting, because I was thinking 90 days from the government's standpoint was pretty good. So congratulations. Larry Halloran, my counsel, was saying, "my God, 90 days is 3 months, and think of that person having to wait and all the other people are going to be tempted to apply!"

Mr. KENNEDY. It is a real burden. But because of the information that the State Department processes and handles, especially everything that moves through the conduit of our Information Technology System, we have to take those steps. It is a challenge and a burden that we accept, and we try to streamline as much as we can.

Mr. SHAYS. Your first answer on the people was not a surprise I was not expecting. I was happy to ask the question.

Mr. SULLIVAN. I believe that our critical problem is ensuring that all of our systems at VA are seamlessly integrated. We have been struggling with this for a while. We are coming close with the interfaces we developed. But that's not the answer. We need to look at the newer technology and see how we can better seamlessly integrate these systems.

Mr. SHAYS. And you are working with three time zones.

What is the second problem? Besides the integration, what would be the second challenge to information systems?

Mr. SULLIVAN. I can speak from the finance side. I think our other biggest challenge is to get data on a more timely basis to our management decisionmakers out there. We haven't been doing a very good job of that at all, and a lot of it is because of our legacy system and some of it is because we need to reengineer some of our processes up front.

Mr. SOLOWAY. Congressman, I have two and then Mr. Toye has two more. But being a reformer, I would like to break the rule and add another to build on your comment.

First and foremost I think the biggest challenge we have is cyber-security. As Dr. Hamre and I think others reiterated several times, we are very concerned about the security of our systems as we more and more use the internet and so forth and our ability to maintain truly secure fire walls and so forth. That has clearly got to be our No. 1 priority.

The second one, actually I want to build on your point about people. Our ability to recruit and retain true technology skills is a very serious challenge and one that concerns us greatly. It is very difficult to compete with the commercial world. We do not always have the opportunity to offer people the opportunity to go and serve

in embassies overseas or what have you. And we certainly don't have internally the structure to maintain that technological refreshment that is needed. That's a major concern.

But it leads me to really the second big area, which is in our business logistics information systems. Logistics is a huge cost-eater in the Department of Defense and we are still living with variable logistic systems. And if you analyze supply chain management, if you look at velocity of systems and so forth, it is really the information technology which is the first step, the absolute key to improving efficiency, reducing cost, getting materials and supplies to the field more quickly and so forth.

So we face enormous challenges in modernizing our logistics and information systems with truly contemporary technologies so we can better serve the folks in the field.

Mr. SHAYS. Thank you. Mr. Toye.

Mr. TOYE. Within DOD, financial systems, or the lack of adequate systems, is indeed the biggest single impediment to improving financial management. Our systems were not designed to meet current standards. They were designed to track the Department's execution of the budget as appropriated by the Congress, and they do those things very well. And at one point in time, that may have been good enough, but it certainly is not good enough in today's environment.

So our first priority is to overhaul or replace our financial systems. And we have a plan that we are executing, as was mentioned earlier, that will not be completed until the year 2003. But even upgrading our financial systems by itself is simply not good enough. A substantial portion of the information that ends up in our financial reports comes from what we call feeder systems. These are systems in non-financial areas that provide information to DOD.

We need to, and we are working with those other communities in DOD, to get them to make the changes in their systems to ensure that the information that they pass to the financial systems also will meet today's current standards. That is a long-term effort. It is a significant effort, but it is the most effort and it needs to be accomplished to bring financial management to the point where it should be.

Mr. SHAYS. Thank you very much.

Mr. Mica, it is great to have you here.

Mr. MICA. Thank you, Mr. Chairman, and thank you for the opportunity to ask a few questions. I think my questions are going to divert here to the Department of State. And I guess we have got the Chief Financial Officer, Mr. Edwards, here to answer.

Mr. Edwards, first I want to address the question of the security of our diplomatic facilities and posts overseas. I know Rear Admiral Crowe had recommended, I guess, some \$14 billion be expended over 10 years for that purpose. It is my understanding also that I think this year there has been a recommendation of a lower amount; if we had to do that over 10 years, it would be about \$1.4 billion or something like that.

What is the dollar amount you all are recommending?

Mr. EDWARDS. Well, as I indicated in my statement, the President's budget recommends an advance appropriation of \$3 billion

for 2001 through 2005, and that is ramping up from \$300 million in the first year to \$900 million.

Mr. MICA. \$3 billion for 2001?

Mr. EDWARDS. Through 2005. Fiscal year 1999, we got an increase over our previous construction budget of \$36 million, and that is to do the advanced planning on the first, up to eight embassies or other facilities for that advance appropriation that would come in 2001.

Mr. MICA. How are you picking or prioritizing the facilities for upgrades?

Mr. EDWARDS. Well, we had a very extensive examination following the embassy bombings. Each of the Ambassadors notified Washington of their immediate needs. We sent out teams of diplomatic security and our building people, to a total of 36 posts which were clearly at the high end of risk.

So we have now come up with quite a number of posts for each of those 5 years that we would either relocate, rebuild, or otherwise reinforce weaknesses, so that in the event the appropriation is approved we are ready to spend the money appropriately.

Mr. MICA. Has the State Department issued any kind of advisory as to small measures that can be taken to prevent death or damage, to your knowledge?

Mr. KENNEDY. Mr. Mica, my name is Pat Kennedy. I am the Assistant Secretary for Administration, and I supervise our Office of Foreign Buildings and also was the Acting Assistant Secretary for Diplomatic Security for some period of time. And the answer to your question is an emphatic "yes."

We have a series of standards in place. We have notified our posts. We have made funds available to them for everything from what is called "shatter-resistant window film," which the trade name usually used is Mylar, and telling them how to do it and making the money available to them.

If I might give you one example that combines two things we have done, both making that available and a rigorous training program: There was a bomb blast about 2 weeks ago in the capital city of the country in which there was a local problem, not against the United States. There was a noise in the street. Some of the local nationals working in the embassy started to go to the windows to look out. The Americans who had been through the training said, "No. No. Get away. Move inside."

When the bomb exploded moments later, all the windows were blown out, but no one was hurt, for two reasons: One, the Americans had pulled everyone toward the inner part of the building and when the windows shattered the Mylar treatment kept—

Mr. MICA. That is exactly what I am talking about, some commonsense things.

This subcommittee in its previous life did quite a bit of work on force protection, particularly after the Kobar Towers incident, and we found some simple things. Of course, we spent a third of a billion dollars on enhancing our force protection, and we have been out looking at what was done.

It is interesting when you have a problem how you throw money at it. We bought every kind of gadget in the world. I remember going to Saudi Arabia with Mr. Hastert, who is now the Speaker,

and saw every kind of equipment you could possibly imagine, most of it foreign produced, which is kind of interesting to address the foreign protection problem; but some simple measures that we were advised, like the Mylar on windows and the other advisories that folks can do. Because I am not going to criticize you for not spending a lot of money. I think that sometimes the small amount can do a lot of good.

And we overreact on some of these, I think. I think even Admiral Crowe is an overreaction. With \$14 billion, I do not know how many embassies we could harden. But that does not give us any protection when we have American schools, we have American facilities, we have American tourists, we have American businesses all throughout the world.

I just got back from visiting South and Central America. And when you take precautions in one area, they will come after you in other areas, we have seen in Tanzania and Kenya. So just some commonsense things and not spending the entire Treasury on things that may look good and satisfies people's wish lists would be desirable.

Mr. Chairman, if I may, I have some questions in a couple of other areas.

As a financial officer, I have been involved in the narcotics effort; and one of the reasons we are having such a problem right now in the United States is the diversion of some of the funds, particularly State Department funds, from the Andean strategy. In particular, I was told about \$40 million was taken out of the Andean strategy and diverted at one point several years ago to Haiti.

How does this happen? Who is making the decisions in diverting some of these funds in that manner?

Mr. EDWARDS. Well, it can come about several ways. First of all, if our base funding isn't sufficient to do everything we want, we have to, for example, absorb salary increases and FICA tax increases and so forth, we have to start reducing programs.

Mr. MICA. This is taking money out of a program specifically appropriated by Congress and putting it into another area.

Mr. EDWARDS. Well, if the Congress would appropriate it directly for foreign assistance in a program as you have described, that's where the money obviously would go.

Last year in the accountability report, we have a citation of drug interdiction. We had a major year in fiscal year 1997 of interdicting drugs coming into the country, and I think the street value of those drugs was something in the billions of dollars if you took the tons of drugs interdicted, and priced it out at street values.

Mr. MICA. That does not address my question specifically. And I will get my subcommittee staff to give your subcommittee staff the specifics. But I want to know how that \$40 million, thereabouts, were diverted.

Mr. SHAYS. So let me just say that that would be a request that we would have and we will followup on that.

Mr. EDWARDS. We can certainly respond to that question on that specific issue, Mr. Chairman.

[The information referred to follows:]

Responsibility for Y2K system remediation depends on the system status. Remediation of operational systems unique to the Department are the responsibility of the owning Service or Agency. They may use the developing contractor, other commercial organization, or may rely on organic resources to effect the required changes.

For commercial systems in use by the DoD, the owners must rely on the commercial vendors to effect the change.

Mr. MICA. The Haiti money particularly bothers me, because some of that money was spent for institution building as far as their police and judicial system, and now we are told that Haiti has become a center for drug trafficking. So you diverted money out of an Andean strategy to stop drugs at their source, and money was used in Haiti for institution building and they were barely certified, I think with reservations, the other day by the President, because the programs that we diverted money for have basically failed.

I have the same problem with the money that we were trying to get and resources to Colombia. Colombia has now turned into the major producer of cocaine in the Western Hemisphere, and this administration and the State Department have blocked equipment, helicopters, material, resources, from going into Colombia.

They had, I know, some disagreements on human rights and our pattern of conduct of the past administration. But I am wondering if you can give us an update—it does not have to be now, but to the committee—on what you are doing now to see that there is a new government in place, and hopefully a new attitude by the administration to give resources to Colombia, which is now the major producer of cocaine in the entire world. The major. We have turned it into the major.

It is also the major producer of heroin in the entire world. Since none of that equipment went down to eradicate the crops, they have poppy fields growing from one end of Colombia to the other and they are producing heroin in unbelievable quantities of high purity.

So I am anxious, Mr. Chairman, and I would request the subcommittee, and will submit a letter and request to see what is being done to expedite the finances, resources.

Mr. SHAYS. Would the gentleman yield? This is a good opportunity to acknowledge the fact that Mr. Mica's subcommittee has jurisdiction over the whole drug effort in this country, both domestically and overseas; and instead of our saying, well, State and DOD report to this committee solely, you report to us on every issue except the drug issue.

So what I am going to do is, even with the first question, because I think it really is important to get right to the committee of jurisdiction. Mr. Mica and I, by the way, serve on each other's subcommittees as well, so I think this is a very important question. It is good that he used this opportunity now when you are before us. And we will send a memo to your committee, in fact, just making sure. And we would like this information sent to the committee.

The title of the committee now is what?

Mr. MICA. It is Criminal Justice, Drug Policy, and Human Resources. Only a shadow of its mere former.

Mr. SHAYS. If you would send that information directly to that committee. You do not need to send it here. I am not going to ask you to do it twice.

Mr. MICA. And through the committee, Mr. Chairman, I will re-draft those questions very specifically and address them to the agencies, with your permission.

Mr. SHAYS. Exactly. So you just have been given a public notice.

Mr. EDWARDS. We will be happy to respond, both in writing and also have our Assistant Secretary in that area meet with your subcommittee.

Mr. MICA. I have two other questions in a couple of areas.

One, I was recently in discussions with a member of the Ukraine Parliament who came to us with allegations that the United States foreign assistance, foreign aid to Ukraine, is being given and going into the pockets of basically thugs that are in charge of the Ukraine activities.

Is there some kind of an enhanced oversight mechanism for grants, assistance, aid projects in the emerging Eastern Bloc nations?

I was appalled by what I heard. In fact he said that—he is a member of parliament. He is also a banker, and he can document this corruption with our money. He said it would be better if we terminated all of the assistance for his country because it is actually—it is hindering their development. Do we have any kind of an enhanced check or oversight IG inspection of these activities?

Mr. KENNEDY. Mr. Mica, we deal with this on four levels. There is an Agency for International Development [AID] mission in the Ukraine that is on the ground and immediately responsible for program development. It has Washington oversight.

Mr. MICA. I was told that it is corrupt from bottom to top, and all of our assistance programs there have been subverted.

Mr. KENNEDY. Mr. Chairman, this is not specifically within the State Department's jurisdiction because it is an Agency for International Development program, but the State Department does have a policy coordinator for assistance to the countries of the former Soviet Union.

Mr. MICA. Can your IG go in, or does he not have that authority?

Mr. KENNEDY. The AID IG, sir, would be the relevant authority.

Mr. SHAYS. I am sorry to interrupt. The AID will be under State when, October?

Mr. KENNEDY. The Administrator of AID, effective April 1, will be under the foreign policy authority and direct control of the Secretary of State, but pursuant to the legislation it retains its status as an independent entity with its own IG.

Mr. SHAYS. So it is just for administrative purposes, but the bottom line is that we oversee that subcommittee.

Mr. MICA. I would like to start with the Ukraine and maybe we can work on. But I had an investigator from the International Relations Committee and an investigator from my subcommittee of the Government Reform Committee, listen to this detail of corruption with our funds that was absolutely appalling, and I think we have the responsibility to followup in some fashion, whoever is in charge, whenever. And maybe we can start right there, and we will be glad to give you additional details after the hearing.

Mr. KENNEDY. The Secretary is concerned about the best use of all overseas funds, especially for sustainable development. And I will take this up with the coordinator for the Newly Independent

States and pass this on, and your offer to share this information to the AID people as well, sir.

Mr. MICA. Possibly in your jurisdiction or oversight, is it true, and I don't know if this is accurate, did a Japanese firm get the new passport contract to produce the passports?

Mr. KENNEDY. An American firm won the contract. However, this American firm does buy some of its materials from Japanese sources. And that competition was an open competition and we brought in evaluators, I believe it was from the National Institute of Standards and Technology, to evaluate the process we are using, which is a photo digitalization process to literally spray the picture onto the passport book, to eliminate the threat caused by criminal and other terrorists who are trying to extract the picture from under the laminate. So an American contract was awarded to—

Mr. MICA. You said some of the material?

Mr. KENNEDY. I would have to get back to you.

Mr. MICA. I need to get back with Mr. Traficant. He has some interest in this Buy American provision. It is interesting that I was told that Americans will soon be walking around with Japanese content passports.

Mr. KENNEDY. The passport booklets, themselves, Mr. Mica, are produced by the Government Printing Office.

Mr. SHAYS. May I ask the gentleman, my sense is that we have reciprocal agreements with our allies, that they get to bid on certain things that we do and we bid on certain things that they do. In this case it could have been a foreign corporation that could have won this bid or not, but didn't?

Mr. KENNEDY. I am not a contracting specialist, but I believe, sir, that you are correct.

Mr. SHAYS. I'm sorry?

Mr. KENNEDY. General Agreements on Tariffs and Trade do permit cross-bidding.

Mr. SHAYS. We have that same issue in Defense as well, where we bid on things that are used by our allies.

Mr. SOLOWAY. There is a globalization in industry in general, and if we want to access the most contemporary technology there is a need to access that full global marketplace.

Mr. SHAYS. But Mr. Traficant is rightfully concerned that we have as much U.S. participation as possible. Do you have another question?

Mr. MICA. I do, but I think I have done enough damage.

Mr. SHAYS. You can go ahead.

Mr. MICA. Are you going to keep the record open?

Mr. SHAYS. Sure.

Mr. MICA. I would prefer to do that.

Mr. SHAYS. But as it relates to the drug issue, would you report to Mr. Mica's committee. I also serve on that committee.

AID, we are going to be doing some looking at that; and Mr. Mica can join, as he sits on this committee, to pursue that. I am happy that he mentioned it, and we need to get a handle on that.

I am going to conclude, but let me just say if there is anything that any of you had wished—anything in particular that you wished that we had asked, this would be your opportunity to put it on the record.

I thank you. This was a general hearing in nature, but it is helpful in helping us sort out where we go. I thank you very much. This hearing is now closed.

[Whereupon, at 12:10 p.m., the subcommittee was adjourned.]

